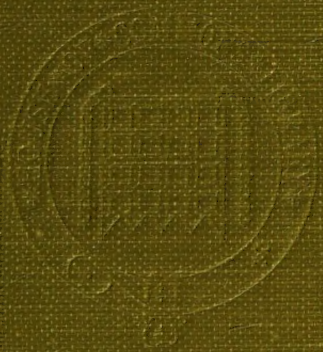

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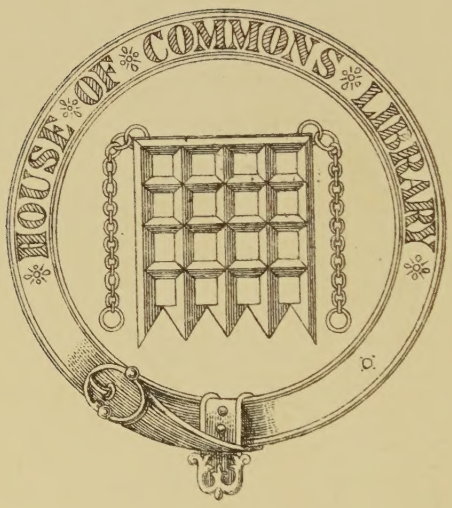

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THE ECONOMICS OF EVERYDAY LIFE

A FIRST BOOK OF ECONOMIC STUDY

by

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PART II

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INTRODUCTORY NOTE TO PART II

AS **The Economics of Everyday Life** has, for convenience of publication, been divided into two parts, it seems advisable to begin Part II by indicating how much of our subject has already been dealt with and how much of it remains to be treated in the pages which follow.

The whole work aims at being an explanation of the economic relation which exists between **wants, efforts** and **satisfaction.** It has been shown in Part I

(1) that man's wants are the foundation of all economic life and activity and that in a primitive condition of society, his wants would for the most part be satisfied by the results of his *direct* effort;

(2) that as society develops and civilization advances economic life becomes more complicated and the causes and effects of economic effort more difficult to trace;

(3) that under modern conditions men satisfy almost all their wants *indirectly* by producing what other people need and by exchanging their own commodities and services for those of others;

(4) that the development of exchange gives rise to the use of money and credit;

(5) that the result of a man's effort is as a rule judged by the income it brings him in and that this income is measured in terms of money.

Part I in short has been devoted to the consideration of **effort,** of **exchange** and of **income.** It remains therefore to consider in **Part II** how the income thus obtained is applied to the **satisfaction** of human wants.

Part II will also include a short account of

(*a*) **The economic wants of the State** and how they are supplied.

(*b*) The aims and methods of various forms of association such as **Trade Unions** and **Co-operative Societies,** showing how they affect the standard of efficiency and the standard of living.

These are introduced because of the very direct bearing they have upon the subject of income, and because a book dealing with the Economics of Everyday Life would be very incomplete if it did not contain some treatment of two very prominent features of the economic life going on around us:

viz. the necessity of paying rates and taxes and the joining together of those having common economic interests into associations for the furtherance of those interests.

T. H. P.

OXFORD.
July, 1921.

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(*a*) the *urgency* of the wants,

(*b*) the *attractiveness* of the things desired,

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Though some wants may be satisfied by direct effect, as a rule it is true to say that satisfaction of wants comes through *spending*. *Shops* provide opportunities for buying and selling and at the same time stimulate demand through the display of goods. In earlier times people living in the country relied largely on *itinerant vendors*, though much of their purchasing was done at periodical *markets* and *fairs*.

The satisfaction obtained through spending depends mainly on

(*a*) the *method* of spending,

(*b*) the *prices* of goods and services.

The *general price level* is the index of the purchasing power of money. It is the average of prevailing prices, and hence is influenced by the same forces as act on the prices of individual commodities. These forces may be examined under the headings of Demand and Supply.

The general price level is indicated by an *Index Number*.

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A part only of the income is available for spending. Expenditure is (*a*) *personal*, (*b*) *social*. Social includes *Charity* and *Taxation*, personal includes *spending* and *saving*.

Saving = turning wealth into capital and hence providing for future wants.

Spending = using wealth for satisfaction of present wants.

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On the social side spending may be considered as it affects (*a*) the producers, (*b*) other consumers.

The problems connected with (*a*) *luxuries*, (*b*) *waste* have also a social side and must not be looked at merely from the point of view of the individual. Bastiat's story of the *Broken Pane* shows very clearly the fallacy of the assertion that "destruction of property is good for trade."

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BOOK V

SPENDING THE INCOME

CHAPTER I

EFFORT AND SATISFACTION

"What a man does with his wealth is a vital question; for upon the answer given to this question by society as a whole depends the growth of future wealth itself." SELIGMAN.

THE very simple diagram which was given on page 15[1] of Part I serves to illustrate the part that **Income** plays in everyday economic life. The three characteristic features of this economic life of ours are:

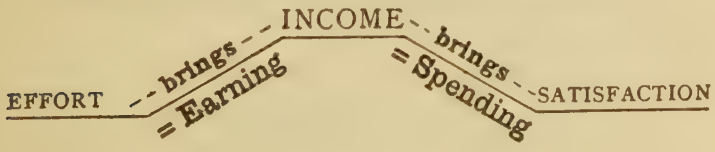
(1) That we satisfy our own needs by satisfying the needs of others.

(2) That the services we render to others bring us a money income.

(3) That it is by spending this money income that our wants are actually satisfied.

Thus under modern conditions **income** may be regarded as the necessary connecting link between **effort** and **satisfaction**. Hitherto our attention has been concentrated on the first half of the process, namely, earning the income; now it must be given to the second half, namely, spending the

[1] The diagram is repeated here for the convenience of the reader:



income. The former has to do with the relation between the effort made and the income resulting from that effort; the latter with the relation between the income a person has and the satisfaction which can be obtained by means of it. Assuming then that the income is there, we shall in the succeeding chapters only concern ourselves with the way it is used or spent.

That part of the economic process which consists in the satisfaction of wants—in spending the income—is commonly called **Consumption**. The term is perhaps rather ambiguous and even misleading, its popular meaning differing considerably from that given to it by Economists. The word consumption in everyday speech suggests destruction. A piece of paper is thrown into the fire and is burnt, and we then say that it is consumed. Or again we talk of the amount of food that is consumed in a particular household. In both cases we mean to suggest that what was there before no longer exists as paper or food. The chemist no doubt would tell us that matter has only altered in form, but so far as their original use is concerned, the paper and the food have been destroyed, or in other words have been consumed. Even John Stuart Mill, one of the greatest of English economists, uses the term *consumption* in this way.

"Everything," he says, "which is produced is consumed, both what is saved and what is said to be spent, and the former quite as rapidly as the latter."

"Saving and spending coincide very closely in the first stage of their operations. The effects of both begin with consumption; with the destruction of a certain portion of wealth..... There is in the one case a wearing out of tools, a destruction of material, and a quantity of food and clothing supplied to labourers which they destroy by use; in the other case there is a consumption, that is to say, a destruction of wines, equipages and furniture."

And in another place:

"If employed as capital it is all consumed, though not by the capitalist. Part is exchanged for tools or machinery which are worn out by use;

part for seed or materials which are destroyed as such by being sown or wrought up, and destroyed altogether by the consumption of the ultimate product. The remainder is paid in wages to productive labourers who consume it for their daily wants[1]."

In these passages it is seen that Mill uses the term *consumed* as having the same meaning as "destroyed" or "used up," and the term *consumption* as being equivalent to "destruction" or "wearing out," and that he applies the terms equally to the use of wealth for satisfying wants and to the use of wealth for assisting in the production of other wealth. But this only leads to a confusion of ideas and it is better therefore when dealing with economic questions to use such terms in their strict economic sense. What meaning then in Economics is attached to the term *consumption*?

When an Economist speaks of things being consumed he means that they have been used in the *direct* satisfaction of wants, not that they have been used for productive purposes. **Consumption has to do with spending and not with saving.** The Economist would say that the food which is eaten is *consumed*, not because it no longer exists as food but because it has been used to satisfy a want. And similarly those who purchase things are said to be *consumers*, not because they are about to use them up, but because their object in buying them is to satisfy their wants. The food possesses utilities, *i.e.* power to satisfy wants, and just as we measure production by the amount of utility created so we measure consumption by the amount of utility enjoyed. This may be illustrated by a concrete example:

A pair of boots is bought, say, for £2. All the time the boots last they are serving to satisfy a want, and the satisfaction obtained may be regarded as measured by the £2 paid for them.

Or again: A person rents a house for £50 a year. The utility of the house consists in the amount of shelter, com-

[1] J. S. Mill, *Principles of Political Economy*, Book I, Chapter V.

fort, or convenience it can render to the occupier. This shelter, comfort, or convenience constitutes a part of wealth. When the house is occupied, this wealth is being consumed, and the value of the wealth consumed in this way during a period of twelve months is measured as being £50. What applies to material wealth applies also to immaterial wealth, to services as well as to commodities[1]. Thus, if a secretary is engaged at a salary of £300 a year, the wealth represented by his services is being consumed by his employer all the time he is rendering them, and in a year the amount of wealth so consumed is measured as being £300.

Consumption then in the economic sense of the word may be defined as **the application of wealth to the satisfaction of wants.** Any individual's power to consume is indicated by his or her income, and this is expressed in terms of money. It is through the spending of income that we obtain those things that we expect to give us the satisfaction desired.

Economic writers at the present day attach much more importance to this branch of our subject than did their forerunners of, say 50 to 100 years ago. To-day we regard "wants and their satisfaction" as the foundation of economic life, and we bring into special prominence what may be called the consumer's point of view. The classical school of Economists, on the other hand (and of this school Ricardo and Mill may be regarded as typical) took the production of wealth as their starting point and treated the consumption of wealth as a sort of necessary consequence which might almost be taken for granted, and which needed very little discussion. Our point of view is rather that productive effort is only made because man has wants, and that it is only to be regarded as successful in so far as it brings satisfaction of those wants, and consequently that the whole question of consumption ought to be looked upon as one of primary importance.

[1] See diagram on page 22 of Part I.

When explaining the nature of wealth (Book II, Chapter III) it was pointed out that:

WEALTH SATISFIES WANTS

and

WEALTH REQUIRES EFFORT.

Ricardo and Mill laid all the stress on the latter of these considerations. We lay at least equal stress on the former. Effort and wants are reciprocal. They act and interact on one another. The existence of wants is the primary cause of effort being made, but when the effort is made and the want is satisfied, that is not the end of it. The effort has not only furnished what is wanted, it has given rise to fresh wants. "Appetite comes with eating" is a proverb that covers a sound economic truth. The more one has, the more one wants. The desire for food, clothing, shelter, etc., leads a man to make the effort without which he cannot secure them, but in making the effort he gets to realise the limits set by his own powers, and he begins to desire things of which he had not previously experienced the want. With his work, too, comes the desire to excel, to improve his power of work, and this leads to a demand for higher training, for better tools and appliances. On the other hand, the monotony or severity of the work may lead to a craving for greater variety in his life, and he experiences the want of distraction, of recreation, of taking part in sports and games of various kinds. It is a common saying that faculty develops with exercise just as it may be lost altogether if neglected. Through practice and training a craftsman acquires a high degree of skill in his own particular occupation. What at one time he could only do with very great care and effort has now become almost mechanical and can be done without any special thought or concentration. But if for any long period of time he were to cease practising his craft, he would

find on taking it up again that he had lost much of the skill formerly acquired.

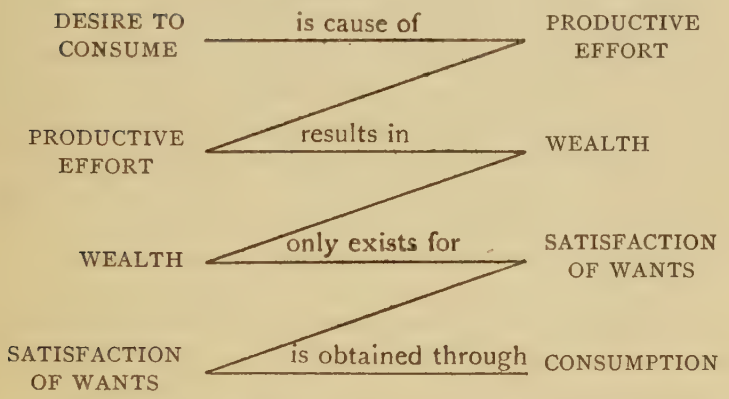
It is very much the same with our wants. The effort to satisfy them brings with it a wider range of desires and a greater capacity of enjoyment. The effort to satisfy the more pressing needs of life soon results in an infinity of new wants which can only be satisfied by greater effort and by higher forms of activity. A simple example of this development of wants is seen in the growing child. As it gets older it needs more, not only more of the same thing but more things, and this will be true of all progress, physical and social. As man progresses wants become more numerous and more varied, and it is equally true that the expansion of wants is almost inevitably followed by still further progress.

The history of the economic development of the English people provides numberless illustrations of this. Take, for example, the economic effects of the Crusades. Men's minds became broadened and their outlook on life extended. They began to desire many things of which they had previously had no knowledge. This expansion of their wants led to increased productive effort. People began to grow more food than was required for their own needs so that they might have a surplus to exchange for the goods produced by native craftsmen or imported from abroad, and thus an incentive was given to industrial progress all round.

It is not difficult to understand how it is that consumption should have come to be regarded as such an all important part of the economic process. It is in fact both its beginning and its end. *It is its beginning* because the desire to consume is the motive of all economic activity. Man has needs and he makes the effort which is necessary before they can be satisfied. *It is its end* because when the effort has been made, when wealth has been produced, that wealth has no other function or purpose than to be applied directly or indirectly

to the satisfaction of human wants. **People produce because they want to consume, and they can only consume what has been produced.**

THE RELATION OF CONSUMPTION
TO
(*a*) PRODUCTIVE EFFORT,
(*b*) WEALTH.



The distinction referred to above between direct and indirect satisfaction of one's wants is one of some importance. Some forms of wealth can satisfy wants just as they are, such as the various articles we buy and the various services rendered to us personally for which we are willing to pay. But certain other forms of wealth, such as tools and machinery, raw materials, and all the various services required to produce goods of various kinds, do not themselves satisfy our wants but play a necessary and important part in this direction, inasmuch as they are contributing to the production of that which can satisfy our wants. The satisfaction obtained from the former class of goods is called *direct*, and that from the latter *indirect*. This is in fact the distinction between consumption and production goods already referred to in the footnote to page 21 of Part I.

One can only consume, *i.e.* utilise for the *direct* satisfaction of one's wants, that which is in a form or position for the consumer's use, while the various forms of wealth that assist the production of other wealth are called production goods and satisfy wants only *indirectly*.

It is to these two classes of goods that Mill is referring in the passages quoted in the beginning of this chapter when he speaks of spending and saving. By *spending* he means using wealth for the direct satisfaction of wants, and by *saving* using wealth for the indirect satisfaction of wants. It is a distinction between wealth ready for present enjoyment and wealth which will make possible enjoyment in the future. It is, in short, our old distinction of wealth and capital dealt with on pages 38 and 39 of Part I. Mill uses the term consumption in connection with both of these classes; we use it only in connection with the former.

Two further points concerning the relation between effort and satisfaction—or, to use the more technical terms, between Production and Consumption—need to be carefully noticed.

1. When we speak of consuming that which is produced, of satisfaction following as a result of effort, we are apt to lose sight of the fact that the two processes are daily going on side by side. Every day fresh wealth is being produced, but every day also wealth is being consumed; so that at the day's end the total amount of wealth in existence is very much what it was at its beginning. Take, for example, the men and women around us who are doing different kinds of work to earn their daily bread. They are earning and spending at the same time. One of them, shall we say, is earning £5 a week. All through the week he is helping to produce wealth and on the Saturday he will receive £5 as a payment for the service he has rendered by so doing. But all through the week also he and his family have been consuming wealth in the form of food, clothes, shelter, etc.,

which have probably cost about as much as he has earned. It is true that boots cannot be worn until boots have been made, that the consumption of any particular portion of wealth follows its production. But the man who makes boots does not make them for his own use, he makes them in order that he may satisfy the many and varied wants of his daily life, and these wants are being satisfied while he is actually making the boots. This is rendered possible by the character of modern economic life. **All the results of past labour have not been consumed.** There is a store of wealth which we call *Capital*, and it is only by means of *Capital* that all classes of society are able to satisfy their daily wants even though the effort is still uncompleted, and though payment for the effort will not be made till the end of the week, or month, or year. Agriculture is a very good example of productive effort that has to go on for a long time before the results of such effort can be utilised. From the ploughing up of the field to the gathering in of the harvest, a long time must elapse and during the whole of this time all those engaged on the farm must be consuming clothing, food and shelter, and thus they are receiving in advance the reward of their labours.

2. One very often hears it remarked that some particular social or political scheme is calculated to benefit *producers*, while another is designed in the interests of *consumers*. What is generally meant is that under the one scheme incomes are likely to be increased and under the other the prices of things in general are likely to be diminished. During the war, for example, many people were able to obtain very much higher prices for their goods and much higher payment for their services than was formerly the case. Their incomes were increased, and so they benefited as producers, while the general public having to pay more for everything may be said to have suffered as consumers. The distinction is however rather a superficial one. Everyone must get an

income as well as spend it. **Everyone is both a producer and a consumer,** and it is misleading to speak of producers and consumers as if they were quite different sets of people. Of each person it is true to say that in rendering the services for which he gets his income he is a producer; in the using of that income for the satisfaction of his wants he is a consumer. These are merely the two sides of his economic life and they cannot be separated from one another. It is true that when a man's income is increased he is benefited as a producer because his effort has become more productive, but he is at the same time benefited as a consumer because he possesses greater spending power than before. On the other hand, if prices in general are higher, certain people may benefit as producers though as consumers they find that money will not go so far as it did before the prices were raised. They really benefit only when their incomes are increased in a greater proportion than the prices of the commodities or services for which the income is exchanged. This is the only true test of economic improvement. Economically speaking, a man will only be benefited when with his income he is able to secure an increased amount of the necessaries and comforts of life. If all prices were doubled and all incomes were doubled also, what a person lost by the former he would gain by the latter—in other words his income would bring just as much satisfaction of his wants as before and no more. But such is hardly likely to be the case. It may happen in particular instances that the income has risen in exact proportion to the increase in the general cost of living, but as a rule the high prices bring large incomes to a few and greatly diminished comfort to the great majority of people who cannot increase their incomes in proportion to the increased cost of everything.

The question may be briefly summed up as follows:

The producer who gets a larger income as the result of higher wages is benefited also as a consumer if the cost of living is not increased in as great a proportion. On the

other hand, there are of course many people whose incomes are fixed, or subject to very small increase, and these will unfortunately suffer as consumers when they have to pay more for everything they buy. All as consumers are affected by a rise in the cost of living, though those only are worse off as a consequence of it whose incomes have not at the same time increased sufficiently to meet the additional expenditure involved.

Income has been described above as spending power and it is recognised by everyone that the way by which an individual gets increased spending power is by getting a larger income. But what is true of the individual is not necessarily true of the community as a whole, and to the statement,

SATISFACTION IS LIMITED BY INCOME

we must link on another, equally important but not quite so evident in each individual case,

SATISFACTION IS LIMITED BY OUTPUT.

The former is the point of view of the individual, the latter is that of the community. An individual's share of the product of industrial effort may be increased by increasing his income, but so long as the total amount to be distributed remains the same, his getting more only means that somebody else is getting less. More cannot be consumed than is produced. During the War this did not seem altogether in accordance with facts. As a nation we were living far beyond our income and the result was that we had to use up a considerable part of our accumulated wealth and that we had to borrow both at home and abroad. In the ordinary way, however, the nation's income has to suffice for the nation's needs and in the long run the amount consumed cannot exceed the amount produced.

It was stated on page 135 of Part I that in any particular industry the amount which can be distributed as incomes to

those who have taken part in the effort is the net product of such effort. This net product is measured in money and the incomes are also measured in money. If the money value of the net product is raised by an increase of the selling price, there is more money to distribute and the money incomes of those connected with the industry are increased and they obtain greater spending power, that is they are able to obtain more of the wealth produced by others. Unless therefore these others produce more wealth, some people are bound to get less.

Let us apply this now to the whole country. The **National Income** (or **National Dividend** as it is sometimes called) is the amount that can be distributed as income to all members of the community. "The Labour and Capital of the country," says Professor Marshall, "acting on its natural resources produce annually a certain net aggregate of commodities, material and immaterial including services of all kinds. This is the true net annual income or revenue of the country or the *National Dividend*."

If prices of goods are raised or the remuneration of services increased, or, in other words, if the National Money Income is increased, though not the National Dividend as measured in goods and services, people as a whole are getting larger money incomes but the total amount they can consume being unaltered, they are on an average no better off. The improvement in the economic position of some is counterbalanced by a corresponding straitening in the circumstances of others. In any particular industry a rise in wages unaccompanied by increased output results in either a reduction of profits or in an increase of prices, probably to some extent it results in both. If prices are increased the rise in wages is borne by the general public, who have to pay more for the commodity in question and whose incomes lose something of their spending power. Increase of profits unless arising from improvements in

productive methods or some other means of reducing the expenses of production, would also involve increased prices to the consumer in general. In this way the advantage to one is a loss to another, and hence it may be laid down as a general principle that the consuming power of an *individual* may be increased by an increase of his or her income, but the consuming power of the whole *community* can only be increased by increasing the National Dividend, that is by increasing the total national production of wealth.

CHAPTER II

WANTS AND THEIR CLASSIFICATION

"There is an endless variety of wants, but there is a limit to each separate want." MARSHALL.

IT is sometimes stated that a man's wants are unlimited; that however much he has there is always something more that he desires to possess, or in other words, that man is never completely satisfied. This is no doubt true in a general sense, but it is far too vague and needs a good deal of qualification. The wants we deal with in Economics are the wants which a person satisfies if he has the means of doing so; they are in fact the wants which give rise to *effective demand* which, as was explained on page 107 of Part I, implies three things: the desire to possess a thing, the means of purchasing it, and the willingness to use those means for this particular purpose. Just as the cause of all economic effort is that men have wants, so the wants which play a part in economic life are those which lead to effort and which find their satisfaction through effort. Mere desire to possess is not want in the economic sense, for it leads to no economic activity or sacrifice and is not capable of measurement. A man who has a small income would doubt-

less like to enjoy many things which are quite beyond his present means, but unless his desires are an incentive to additional effort and possibly also to increased productive capacity, they would not, economically speaking, be regarded as wants. **Wants then,** in the economic sense of the term, **are that effective desire for particular things which expresses itself in the effort or sacrifice necessary to obtain them.**

The higher the level of civilisation and culture, the more numerous and the more varied are man's wants. We are told that in the eighteenth century it was very usual to come across labourers who, finding that their wants could be satisfied by three days' work each week preferred to be idle for the rest of their time. Their earnings it is true were small, but their wants were few and easily satisfied. At the present day it would not be difficult to find examples of people who could earn larger incomes if they worked harder or longer, but for whom the additional satisfaction that could be obtained is not a sufficient inducement to make the greater effort required. Education and social improvement result not only in greater productive efficiency, but also in greater capacity to enjoy. Savages have very few wants and these for the most part are satisfied with very little effort, hence, they work little and their methods of production are crude and simple; but civilised peoples have an infinitely wider range of wants, they desire greater variety of food, greater luxury in dress, greater comfort in their homes. They have a desire for books, for pictures, for concerts, and other forms of entertainment, for foreign travel, etc., etc., the immediate result being on the one hand increased economic effort, increased strain and bustle in business life, increased struggle for riches and what they will bring, and on the other hand, a great advance in industrial skill and methods, a great stimulus to invention, more and more specialisation in every department of Art, Industry and Commerce.

It has already been shown that under modern conditions, the satisfaction of wants comes through spending the income, that the extent to which wants can be satisfied is limited by the income, and that it is the wants themselves which stimulate people to desire larger incomes and to increase their endeavours to obtain them. It would be a rare exception to find anyone who would admit that his income brought him the fulfilment of all his economic desires. Even the wealthiest complain that they cannot afford this or that. When we say that a man is contented we do not mean that no want of his remains unsatisfied, but that he does not let the inability to satisfy all his wants interfere with his enjoyment of what he already possesses. Discontent is a powerful and useful factor in economic progress if without spoiling the enjoyment of the present or destroying energy and initiative it leads to greater utilisation of opportunities and greater industrial efficiency.

Different Kinds of Wants.

Assuming then that whatever our income may be some wants will always have to be left unsatisfied, the question naturally arises: Can any rules be laid down as to the order in which people in general satisfy their wants? Before we can answer this we must look rather more closely into the character of the wants themselves. To begin with, some wants are more urgent than others. Some things are more attractive than others. Some things give only a very temporary satisfaction, others a satisfaction which continues over a very long period. Let us consider wants very briefly under these headings of *urgency*, *attractiveness*, *durability*.

Urgency. The most urgent of all wants is certainly food. "Everything that a man hath will he give for his life." The starving man thinks first of satisfying his hunger; the traveller in the desert of the means of slaking his thirst. Warmth also is a very urgent need and this involves suf-

ficiently warm clothing and fuel for warming the house and cooking the food. Shelter, too, in the form of housing accommodation, is one of the most urgent needs. Whatever our means we satisfy first our most urgent needs, and the rest of the income must suffice for those less urgent.

Attractiveness. Coming to the less urgent needs, what we purchase is very much a question of individual tastes, of personal likes or dislikes, of temperament, interests, and training. Some persons would pay more for a thing that was fashionable, for a colour they preferred, for a piece of furniture or china that was old and rare, in other words for the thing they really liked or admired even though to do so they would have to buy less of other things and to go without something the absence of which would involve more or less of real sacrifice.

Durability. The satisfaction derived from some of our forms of consumption is a very brief one; from others it may extend over a long period of years. Some wants, besides, constantly recur, while others when once satisfied may never be experienced again, or at any rate not for a long time. For example, the satisfaction derived from the consumption of food or drink lasts only a very short time, and after a few hours the want is quite as urgent as it was before, while that derived from houses or furniture, from clothes or jewellery lasts quite a long time and the want once satisfied recurs only at more or less considerable intervals. The distinction is very largely one of time. Consumption is rapid or slow as the case may be—the satisfaction is momentary or lasting.

When one speaks of a person's accumulated wealth, one is thinking for the most part of goods of the latter kind. The more that one acquires of durable things, the more one possesses. Furniture, houses, clothes and jewellery all wear out it is true, and some things after a time lose a great deal of their value, but all that we buy in this way before that

which we already have has ceased to be able to satisfy our wants is an addition to the stock of wealth which we possess.

Adam Smith regarded expenditure on *durable* goods as being an important factor in increasing *national* as well as *personal* wealth. "Some modes of expense," he says, "seem to contribute more to the growth of public opulence than others. The revenue of an individual may be spent, either in things which are consumed immediately, and in which one day's expense can neither alleviate nor support that of another; or it may be spent in things more durable, which can therefore be accumulated and in which every day's expense may, as he chooses, either alleviate, or support and heighten, the effect of that of the following day." He speaks of the great durability of fine houses built in the 16th and 17th centuries and still remaining at the time he was writing[1], as also of "the marriage bed of James I of Great Britain which his queen brought with her from Denmark as a present fit for a sovereign to make to a sovereign" still surviving as "the ornament of an alehouse at Dunfermline[2]."

Competing Wants.

Out of the fact that it is not possible for us to satisfy all our wants, it also arises that some wants must in our estimation be put before others. The most urgent wants will naturally come first and the rest will fall into some sort of order very largely determined by the circumstances, the conditions of life, the preference of each individual. The arrangement of wants in a certain order involves a definite mental process. We must compare one want with another; we must estimate the amount of satisfaction we are likely to obtain from each of the competing wants, for wants do compete with one another as is evident from the facts of everyday life. If a schoolboy, for example, had a one pound note given him to buy whatever he liked with, what a number

[1] *The Wealth of Nations* was published in 1776.

[2] *The Wealth of Nations*, Book II, Chapter III.

of wants would occur to his mind in competition with one another! And it is the same with the expenditure of the family income. Every week or month or quarter when the income is received, what competition there is between the various wants of the household! all of them perhaps seem so necessary, and yet some of them—and even very many of them—have to go unsatisfied.

Classification of Wants.

After this brief survey of the motives which may lead people to put one want before another, we must come back to our original question as to the order in which wants are as a rule satisfied.

In this connection it is very usual to divide wants into *three classes*:

Necessaries
Comforts
Luxuries

and to assume that when the income is sufficient to provide for more than necessaries, the surplus will be devoted first of all to comforts, and then, if there is still something over, to luxuries. This arrangement appears very convenient, but it is open to two very serious objections:—(1) It is impossible to lay down any hard and fast rule as to what are necessaries, comforts, or luxuries. (2) The most superficial examination of what is going on all around us serves to show that people do not regulate their expenditure in this uniform and methodical manner.

To take the *first objection*—What are necessaries? Does this mean necessary for preserving life, necessary for efficiency, necessary for maintaining a certain standard of living, necessary for intellectual improvement and social usefulness? Even if it meant all four, and we should naturally like to think that it did, we should still find a good deal of difference of opinion as to what these necessaries were.

And it is the same with comforts and luxuries. The terms vary enormously in significance with different countries, with different social classes, with different positions in life, with different individuals and at different periods of time. In some countries the women go bareheaded and the children barefooted. For them certainly hats and shoes and stockings would not be regarded as necessaries, but they would for the most part be so considered in England to-day. In England again tea would be regarded as a necessary, while coffee would hardly come into that category. In Holland or in Sweden on the other hand it would be the other way round. Coffee would be the necessary and tea the luxury. In France and Italy the home-grown wine is the regular drink of all classes alike, whereas in England and in many other countries wine is generally regarded as something of a luxury. Wheaten bread is in everyday use among all classes in this country; in many other countries rye bread is the staple food.

Even if we were to define the terms more closely, as in the following table, they would still be open to the same objections:

NECESSARIES	**for sustaining life** **for mere subsistence** **the minimum**	i.e. a reasonable amount of plain wholesome food, of decent clothing and of healthy home surroundings.
COMFORTS	**for fuller life** **for more wholesome existence** **a decent standard of living**	i.e. better food, clothes and housing with some provision for recreation and amusement and for the satisfaction of intellectual needs.
LUXURIES	**for refinements of life** **for expensive habits and amusements** **a more elaborate mode of living**	i.e. costly motors, ornaments, table delicacies, etc. together with the indulgence of expensive tastes in art, literature and travel.

These terms are useful as general descriptions but are not sufficiently precise for scientific use. One man would put beer and tobacco in the second if not into the first of these classes; another who is perhaps a total abstainer and a non-smoker would certainly put them into the third. A certain amount of meat per head would by all except vegetarians be regarded as one of the necessaries of life, but beyond what amount does it cease to be a necessary and become a comfort or even a luxury? In what class again should we put dogs, bicycles, gramophones? The difficulties in the way of exact classification are many, and hence though we shall continue to use terms which are fairly descriptive and for the most part well understood by people in general, we shall avoid giving to them too rigid a meaning or taking it for granted that any particular article of consumption falls necessarily into one class or another.

We must now consider the *second objection* to the popular classification of wants given above—viz. that it is impossible to lay down any hard and fast rule as to the order in which people satisfy their wants. All will agree that people buy necessaries first, that is to say, if you restrict the term "necessary" to the minimum needed for actual subsistence. But beyond that minimum there appears to be no rule. Some are prudent, others are careless. Some in their expenditure think of the future and avoid all forms of extravagance, others think only of present enjoyment and spend their money without thought or reflection. Some again follow a middle course and avoid both extremes. In London in the middle of the day, for example, the tea-shops are filled with crowds of young people who instead of getting plain food of a satisfying kind get a "bun-lunch" or "pastries and chocolate." This is either false economy or it is putting luxuries before necessaries. The sacrifices that are made by some to secure more fashionable clothes, more expensive jewellery, are sufficient evidence that luxuries do

not wait till comforts are satisfied. The hardships of physical toil often make the desire for distraction and amusement so strong that prudence is lost sight of and extravagant expenditure is indulged in. An example of an opposite kind is that of the poor scholar, or of the youth who sees in education the road to advancement, who goes with ragged clothes, and even with empty stomach, in order to save the money for some much-desired book.

Order of consumption is not a matter of rule or regulation, it is a matter of personal habit, of individual tastes and desires. Unless there is some strong controlling motive, such as prudence, sense of moral obligation, or duty, the comparative urgency of the wants decides the order in which they are satisfied. No rule can be laid down as to how the surplus income will be spent, whether on physical comfort or on amusement, on intellectual improvement or on objects of personal adornment or caprice.

The Standard of Living.

From what has been said it is very evident that the answer to the question, "What are necessaries?" depends to a large extent on what we are prepared to regard as a reasonable *Standard of Living*. When we speak of a Standard of Living we commonly mean that the satisfaction of certain wants has gone on long enough to become a habit—that certain things have come to be regarded as the normal requirements of everyday life. Different people have different standards. Those accustomed to managing on a very small income have set up a standard which would be satisfied with a very moderate amount of comfort in the way of food, clothing, housing, and amusements. Those, on the other hand, who have always been comfortably off would feel it a hardship to be deprived of much that many others would regard as luxuries or as absolute superfluities. The standard it is evident is by no means a fixed one. It varies from

class to class, from individual to individual, and from time to time with the same individual or class. It is a question of habit, of circumstances, of education, of tastes, of ambitions. But though the term is so vague and is capable of so many different interpretations, the Standard of Living is something more than a mere expression. No one perhaps could define exactly what he meant by his Standard of Living or make a list of all the things which he felt were indispensable to it, yet it has a more or less definite shape in his mind. The desire to raise the Standard by including in it things at present only occasionally enjoyed or quite out of reach is felt by almost everyone, and on the other hand almost everyone is conscious that if, owing to loss of income or increased cost of living, expenditure had to be reduced to such an extent that certain things had to be given up which before had been regarded as the ordinary accompaniments of social life, such reduction would be regarded as a lowering of the Standard of Living, and, what would be felt even more by some, would involve a descent in the social scale with possibly some loss of personal dignity and self-respect.

So far it would appear that the Standard of Living is a purely *personal* matter, one of individual comfort and enjoyment, but it is far more than this: it is besides a matter of the greatest *social* importance, of real interest to every section of the community. The Standard of Living, or, as some may prefer to call it, the standard of comfort, has a considerable bearing on the industrial efficiency, on the social and political organisation, on the progress and development of the people as a whole.

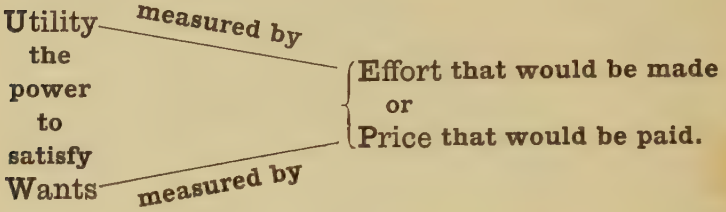
CHAPTER III

THE MEASUREMENT OF WANTS

"As we do not desire goods for themselves, but for the satisfaction they give, so do we value them only for that satisfaction. The value of goods is derived from the value of wants." F. VON WIESER.

CAN wants be measured? At first sight it would appear that the answer must be a negative one. Wants vary so much from time to time and from individual to individual. Of all things they seem the most inconstant and the most intangible. They are always changing, and one want is always being replaced by another. This is perfectly true, but there is all the difference between attempting to measure material objects which have weight and size and attempting to measure a person's feelings, desires, and motives. The former can be measured directly, the latter only indirectly, and by indirect measurement is meant accepting the measure of what results from a particular motive as the measure of the motive itself. A man wants a thing so strongly that he is willing to work a whole day to get it. Here at once we get indirectly the measure of his want—it is one day's work. Or again, if he would rather give £5 for a thing than go without it, £5 would be the measure of his want because it is the measure of the effort or sacrifice he is willing to make to satisfy it. What is it that makes the man willing in the first instance to give a day's work and in the second instance to give £5 for the thing desired? It is the recognition by him of some power to satisfy his wants which the thing possesses. Power to satisfy wants is in Economics known as *Utility* and the utility like the want itself is measured by the effort that a man is willing to make in order to get, or in other words by what a man is willing

to give in exchange for, the object, or the satisfaction, desired.



Diminishing Utility.

It was stated in the last chapter that man's wants are practically unlimited, but there is a limit to his want for a particular thing at any given time. After a good meal, for example, the desire for food no longer exists. Or again, a person may be very fond of hearing good music, but cannot with any pleasure listen to it for more than a certain number of hours. It would be true of very many persons that if they had a single bicycle or typewriter for their own use, they would not, even if they could afford it, go to the expense of another. And so it is with almost everything. The more one has of a thing, the less keen one is as a rule on getting more of it and the less effort one is consequently willing to make in order to get additional amounts of it. In other words, the utility of anything to a person varies from time to time according to the amount already acquired or still in stock. This principle is of such general application that it is embodied in an Economic Law known as the **Law of Diminishing Utility,** which is expressed by Professor Marshall in the following words: "The additional benefit which a person derives from a given increase of his stock of anything diminishes with the growth of the stock that he already has." This is best illustrated by taking an example from daily experience. A hungry boy has a plateful of slices of bread and butter put in front of him. His

desire for the first slice is very great, and for a second slice perhaps nearly as great, but as his appetite becomes satisfied, with each successive slice his desire diminishes until he comes to the point of refusing to take any more. In economic language we should say that the utility (i.e. the power to satisfy want) of each successive slice is less than that of the one which went before it, that the last slice which he is willing to take is the marginal slice, as it is so to speak on the margin between taking it and refusing it, and that the utility of the last slice taken is the **marginal utility** of the bread and butter to the boy in question. If there were eight slices on the plate and if the utility of the successive slices were 6, 5, 4, 3, 2, 1, 0, 0, the boy refusing to take any more after he had eaten six slices, the sixth slice would be called the marginal slice and the marginal utility to him of the bread and butter would be that of the sixth slice, viz. 1.

In this example we have assumed that the boy could get the bread and butter for nothing and that he was consequently willing to go on eating it until he was absolutely satisfied. In all such cases the marginal utility would be practically nil because, as the only effort required is that of eating, the hungry person would go on so long as any desire for food remained unsatisfied, that is, until the next portion would have no utility at all. But in ordinary everyday life most things have to be paid for and the willingness of anyone to buy is as a rule much influenced by the price that is asked, so we will vary our illustration by supposing that instead of slices of bread and butter it is a question of buns in a pastrycook's shop. Keeping to the same order of diminishing utility it would work out in this way:

For the first bun, rather than go without it, he would be willing to pay 6*d.*
„ second „ „ „ „ „ „ „ „ 5*d.*
„ third „ „ „ „ „ „ „ „ 4*d.*
„ fourth „ „ „ „ „ „ „ „ 3*d.*
„ fifth „ „ „ „ „ „ „ „ 2*d.*
„ sixth „ „ „ „ „ „ „ „ 1*d.*

and for a seventh and eighth he would not be willing to pay anything at all because he would be no longer hungry. But how many buns will he buy? That depends on the price asked and on the money he has to spend. If the price were 1*d.* he would buy six, because it is assumed that he would be willing to give 1*d.* for a sixth bun rather than go without it. But if the price were 2*d.* he would only buy five, as for a sixth he would have to pay 2*d.* for what would only give him a satisfaction measured at 1*d.* If the price were 3*d.* he would only buy four, and so on.

Assuming that the price were 2*d.* the fifth bun would be the marginal bun, and the marginal utility of the buns, *i.e.* the utility of the last portion he is just induced to consume, would be measured at 2*d.*

Consumer's Surplus.

This example serves to illustrate another economic truth, namely, that we often pay much less for a thing than the amount of its utility to us personally—that is to say, the price is less than we should be prepared to pay rather than go without it. This difference between what we would pay and what we have to pay is called the **Consumer's Surplus.** In our last example, the total utility of the five buns was $6d. + 5d. + 4d. + 3d. + 2d. = 1s. 8d.$, but the cost was only $2d. \times 5 = 10d.$; hence on this particular purchase the consumer's surplus was $1s. 8d. - 10d. = 10d.$

But if the boy, it may well be asked, derives from the consumption of five buns a total satisfaction which is measured at 1*s.* 8*d.*, why does the baker only charge 2*d.* each? The answer to this question has been already given in Chapter IX (Part I), where the part played by Demand and Supply in the fixing of market prices was explained at some length. There it was made clear that all have not the same intensity of desire and all have not the same means of satisfying their desires, and hence though the boy in the

example above was so hungry that he would have given 6*d.* for the first bun, there were many others who would not have given nearly so much. The object of the baker is to make the largest possible net profit, so he would naturally ask the highest price he was likely to get, but at the same time he wants to sell the largest possible number of buns so he must not ask more than people in general are willing to give, or bakers in general are willing to take, and the utility of the buns to the great majority of would-be buyers was not, shall we say, higher than 2*d.* Hence though some would give more than 2*d.* each others would not buy if the price were more than that amount, and so if the baker could afford to sell the buns for 2*d.* each, it would be to his interest to do so in order that he might get the custom and sell the larger number that would be demanded at that price. And similarly in the example of the motor cars given on pages 113 and 114 of Part I, those who would have given £500 or even £450 for the car obtained a consumer's surplus by buying it for £410, but the marginal buyers, those to whom the marginal utility of a car was only £410, got no consumer's surplus from their purchase.

The Marginal Utility of Money.

Money, like any commodity or service, may be said to have utility, inasmuch as it has power to satisfy wants, though it will be observed that we value money, not for itself but for what it will bring, or in other words for its purchasing power. The utility of money, too, diminishes with every increase in the amount possessed, and the marginal utility of £1 to a person with a small income is very much higher than to a person with a large one. The more money one has the less importance as a rule is attached to each coin or note, and *vice versa*. If a poor man says, "If I can't get a certain thing for 5*s.* I shall go without it," while a rich man whose desire for it is about equally strong is

willing to give £1 for it, it is evident that the poor man attaches four times as much importance to his money as the rich man does, which is the same as saying that the marginal utility of the money in the former case is four times as high as in the latter.

Distributing the Income.

What has been said about **Diminishing Utility** and the **Consumer's Surplus** will throw some more light on the order in which wants are satisfied and on the way in which income is distributed over the various competing wants. It is a question not only of the urgency of the want, but also of the relation which the cost bears to the urgency or, in other words, of the surplus of utility over cost. If a man were hesitating as to which of two articles he should buy, the one costing 10*s.* and the other £1, but the satisfaction he would derive from them being about equal, he would, if he were economically minded, choose the former. The natural order of consumption from an economic point of view would be to purchase things which had a greater surplus of utility over cost before those which had a less, the result of which action would be that in spending a certain amount of money one would seek to obtain the greatest possible amount of satisfaction in exchange for it.

This conception of economic expenditure can best be understood from a practical example. Let us take four articles of everyday consumption—bread, meat, tea, sugar. Let us assume for convenience that they can all be purchased in shillings' worths, this amount being taken as the unit in each case. It is evident that successive units of these commodities will not have the same utility for everybody, so we must regard the figures now given as representing the utility to some particular consumer. We will suppose that to this person the utility measured in pence of the successive units of the articles in question are as follows:

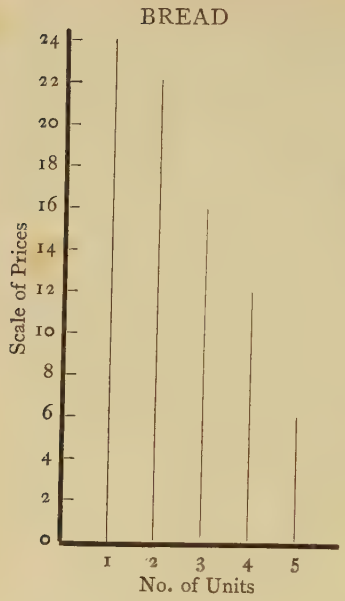
Of BREAD	...	...	24, 22, 16, 12, 6.
Of MEAT	...	...	20, 16, 12, 10, 6.
Of TEA ...	...	...	18, 14, 6.
Of SUGAR	...	...	18, 14, 10, 6, 2.

As each unit costs 1*s.* it is evident that no unit would be bought the utility of which was less than twelve pence. According to the figures given then our householder would not buy more than four units of bread, three units of meat, and two each of tea and sugar, the money being laid out in the following order:

The	1st	two	shillings	would	be	expended	on Bread.
„	3rd	shilling	would	be	expended	on	Meat.
„	4th	„	„	divided	between	Tea	and Sugar.
„	5th	„	„	„	„	„	„
„	6th	„	„	„	„	Bread	and Meat.
„	7th	„	„	„	„	„	„
„	8th	„	„	„	„	Tea	and Sugar.
„	9th	„	„	„	„	„	„
„	10th	„	„	„	„	Bread	and Meat.
„	11th	„	„	„	„	„	„

It will be noticed that according to this table so long as the cost of a unit remains 1*s.*, and the individual's means of purchase remain the same, not more than 11*s.* would be expended on these articles, and further that the greatest amount of satisfaction would be obtained when the last portions of the various commodities purchased have all as nearly as possible the same amount of utility, viz. one shilling or a very little over. The order in which the purchases would be made and the amount of satisfaction which would be obtained from each expenditure of 1*s.* is shown in the diagrams on the following page.

There are some things which can be put to several **alternative uses**, and as by these uses the wants satisfied are not all of the same urgency, the utility differs according to the use. Water is a very good example of this. If water were very scarce and difficult to obtain, it would only be used to satisfy the most urgent want—say for drinking


BREAD
Scale of Prices
0
2
4
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8
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12
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16
18
20
22
24
1
2
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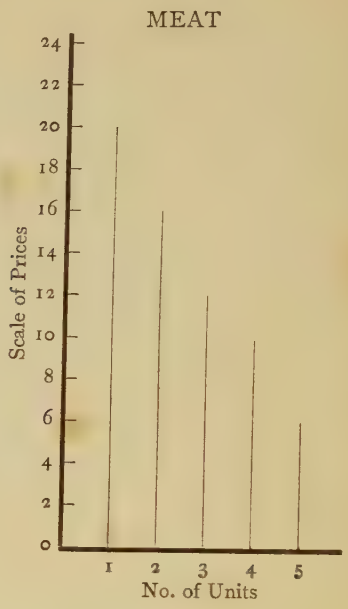
No. of Units


MEAT
Scale of Prices
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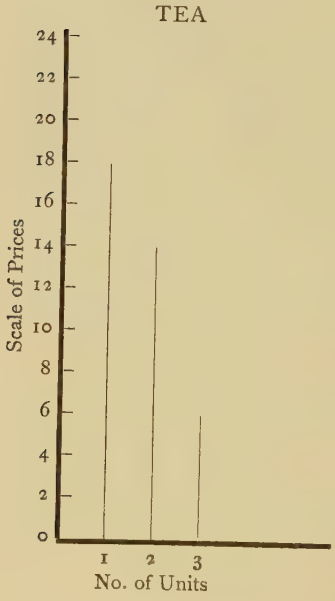
TEA
Scale of Prices
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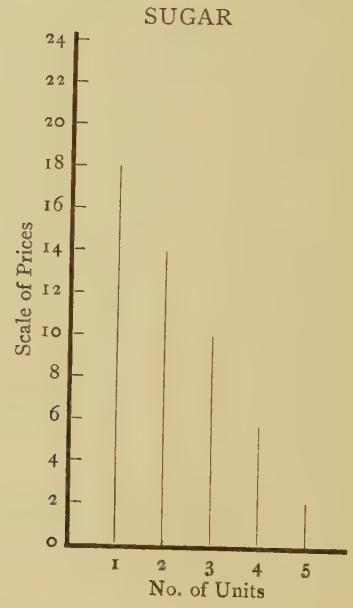
No. of Units


SUGAR
Scale of Prices
0
2
4
6
8
10
12
14
16
18
20
22
24
1
2
3
4
5
No. of Units

purposes. When the thirst was to some extent quenched, any water over would be used to satisfy the want of second degree—say for cooking purposes. If there were still some to spare, a third degree of want—say for washing purposes—would claim attention, and so on, through the various possible uses of the water such as for cleaning the house, for watering the garden, etc., etc.

The diminishing utility of water when used for different purposes can be represented in the following table:

Drinking	Cooking	Washing	House Cleaning	Watering
20	—	—	—	—
—	—	—	—	—
—	18	—	—	—
—	—	—	—	—
—	—	16	—	—
—	—	—	15	—
—	—	14	—	—
—	—	—	13	—
—	—	—	—	12
—	—	—	11	—
—	—	—	—	10
—	—	—	—	—
—	—	—	—	8
—	—	—	—	7
—	6	—	—	—
—	—	5	—	—
—	4	—	—	—
—	—	3	—	—
2	—	2	—	—
—	—	—	1	—

The figures given represent the utility of each gallon of water. One gallon would, let us suppose, satisfy all the more urgent drinking needs of the household, in which case although the utility of the first gallon would be, say 20, that of a second gallon for drinking purposes might be only 2, and of a third absolutely nil. The second gallon would therefore be used for cooking, and the utility of one gallon would, let us say for this purpose, be 18, while that of a

second gallon would only be 6. After one gallon were used for cooking, washing would put in a claim as its first gallon has a utility of 16. But one gallon will not go very far for either washing, or cleaning, or watering, hence the utility of the successive units for these purposes would come rather closer together. Let us say that two gallons would satisfy the more urgent needs for washing, three gallons for house-cleaning and four gallons for watering the garden.

The Family Budget.

In our illustration of the bread, meat, tea and sugar, an attempt was made to suggest the way in which an individual with a very limited income might distribute his purchases of these necessary commodities, and the considerations which might help to determine the order of his purchases. Investigations as to how people with a given income do as a general rule distribute their expenditure have been made at different times in different countries, and the results arrived at are not without interest. In 1857 a Prussian named Dr Engel compiled some careful statistics of the expenditure of German families in different circumstances of life showing that in the case of different incomes different percentages were devoted to such items as food, clothing, etc. He found that a man earning £1 a week spent about

12*s.* 6*d.* a week on food,
3*s.* „ „ clothes,
2*s.* 6*d.* „ „ rent,
1*s.* „ „ fuel and lighting,
leaving 1*s.* „ „ for all other purposes.

That a man earning £2 a week spent about

22*s.* a week on food,
7*s.* „ „ clothes,
5*s.* „ „ rent,
2*s.* „ „ fuel and lighting,
leaving 4*s.* „ „ for all other purposes.

While a man earning £4 a week spent about

£2 a week on food,
14*s.* „ „ clothes,
10*s.* „ „ rent,
4*s.* „ „ fuel and lighting,
leaving 12*s.* „ „ for all other purposes.

From these figures he was able to arrive at the conclusion (commonly known as **Engel's Law of Consumption**) that as the income increases, the proportion of it devoted to food diminishes, to clothing remains very much the same, to rent and fuel remains fairly constant, while the surplus available for other purposes increases. In short a smaller proportion goes to food and a larger one to what may be called the comforts of life.

Some idea as to how small incomes are distributed in various countries and at different times may be obtained from a comparison of the figures shewn in the following Table:

	Incomes of £2 per week		
	Saxony 1857	United States 1901	Great Britain 1914
Food	22*s.*	18*s.* 6*d.*	22*s.* 6*d.*
Clothing	7*s.*	4*s.* 9*d.*	5*s.* 0*d.*
Rent	5*s.*	7*s.* 4*d.*	6*s.* 0*d.*
Fuel and Light ...	2*s.*	2*s.* 6*d.*	2*s.* 0*d.*
Other purposes ...	4*s.*	6*s.* 11*d.*	4*s.* 6*d.*

The standard of income taken is £2 a week and the sources from which the figures are obtained are as follows:

I. Dr Engel's figures (as given above) for working-class families in Saxony in the year 1857.

II. *The Bulletin of the United States Bureau of Labour* (1904), giving tables of average expenditure for the year 1901.

III. *The Report of the Working Classes Cost of Living Committee* (1918), which contains estimates of the average weekly expenditure of "Standard" urban families in Great Britain in June 1914 and June 1918.

From this it would appear

1. That the difference between the British and Saxon tables is very slight, less being spent on clothing in Great Britain but a little more on food and rent.
2. That in the United States less is spent on food than is the case in Great Britain, though more is spent in rent, fuel and light, the general result being a larger surplus for "other purposes."

CHAPTER IV

ECONOMIC ASPECTS OF SPENDING

"When it is a matter of spending income everyone wishes to get as much as possible for his money, and is therefore anxious that the price of the things he buys should be as low as possible." W. T. LAYTON.

HAVING now considered (1) the relation between effort and satisfaction, (2) the character of economic wants, (3) the classification and the measurement of wants, we are in a position to investigate more closely the actual process by which the satisfaction of wants is obtained, namely, *spending*. "But what is there to learn about spending?" most people would naturally ask. "If we have got money, all we have to do is to choose the thing we want and pay for it." "This is perfectly true," the economist would reply, "but at the same time there is more underneath this very simple process of spending than appears at first sight." In looking for the

economic forces which operate beneath our everyday life, in attempting to understand and even to measure economic motives, we cannot pass over without closer examination so important a question as the spending of the income, however simple in effect the various transactions themselves may appear.

It has already been asserted more than once that satisfaction of wants comes through income, but this must not be taken to mean that wants cannot be satisfied in any other way. Some people undoubtedly satisfy a certain number of their wants by their own direct effort, though this is true to a very much larger extent of people who live in the country than of those who live in the town. Some people for example either in their garden or in their allotment grow their own fruit, vegetables and flowers. Some bake their own bread, or have their washing done at home; some do their own dressmaking. People who live in the country have for the most part more space and more opportunity for supplying their needs directly. They keep perhaps cows or pigs or chickens and obtain a home-grown supply of milk and butter, of bacon and poultry. This, however, covers but a comparatively small part of the whole field of economic wants, and hence it is usual to regard the satisfaction of wants as coming through income and as being dependent on the process known as spending.

Spending under modern conditions involves shops and shopping. The retail trader keeps a stock of the things his customers are likely to need, and so makes it easy for people to obtain what they want in the quantities needed and at the time when it is most convenient to them to buy. In the larger centres of population the stocks are large and varied, and buyers have an opportunity of seeing the products of other countries as well as of their own. This is a great stimulus to demand and the desire to satisfy wants is often created by the sight of the goods exposed for sale.

Some people, it has just been pointed out, are more independent of shops than others, and this affects the size and character of the shops in any particular locality. The customers of the village shop are few and the stocks kept are necessarily limited. The easy communications make it possible for people living in the country to shop in the town, and this fact has in itself been a cause of their becoming far less self-sufficing than they were, say, 50 to 100 years ago. For them, too, shopping has now become the principal means of supplying their wants, and we shall not therefore be so very far out if when dealing with the satisfaction of wants we identify it with the spending of the income, and if we take as our type the person who buys (not produces) most if not all of what is wanted for the household needs.

Spending in Earlier Times.

Shops were to be found in the towns from very early times, though for the most part they were kept by the master craftsmen who made the goods they sold. The country people were not so well provided for. They had only occasional opportunities of doing any shopping. They had to rely largely on the **itinerant vendors** who visited them from time to time. These travelling merchants, or chapmen, or pedlars, differed widely no doubt in the scale of their trading and in the value of the merchandise they had to offer, the merchant generally being described as a rich man and the pedlar as a poor man, while the chapman probably came somewhere in between. Visitors of this kind met as a rule with a very friendly reception. They brought, so to speak, the shops to the very doors of their customers, and with their goods they would bring also all news of the great world outside, together with a good deal of more local gossip which they would have picked up as they went from door to door. Their stock consisted of goods which the somewhat limited industry of the household, farm, or village was unable

to provide. The merchant or the chapman would probably have with him wares imported from foreign countries, such as the finer steel, leather, woollen and silken goods of Spain and the Netherlands, as well as the products of English looms in Norwich and elsewhere, while the pedlar would have in his pack—to quote from an old statute of Edward VI: "Pynnes, poyntes, laces, gloves, knyves, glasses, tapes, or any suche kynde of wares whatsoever." This was the kind of itinerant trader that Shakespeare must have had in his mind when he depicted his Autolycus in *The Winter's Tale.* All pedlars were not, it is to be hoped, such light-fingered or fraudulent rascals as Autolycus, "the snapper up of unconsidered trifles," but like him they were probably as a class loquacious and persuasive, and their quick wit and invariable good humour helped them to dispose of their wares with great profit to themselves. The servant in *The Winter's Tale* speaks of the pedlar as having "ribbons of all the colours in the rainbow, points (laces) inkles (tapes) caddises (worsted tapes) cambrics, lawns," while Autolycus himself chants his wares in the following musical lines:

"Lawn as white as driven snow;
Cypress black as e'er was crow;
Gloves as sweet as damask roses;
Masks for faces and for noses;
Bugle bracelet, necklace amber,
Perfume for a lady's chamber;
Golden quoifs and stomachers,
For my lads to give their dears;
Pins and poking-sticks of steel,
What maids lack from head to heel:
Come buy of me, come; come buy, come buy,
Buy lads, or else your lasses cry,
Come buy."

The **markets and fairs** which were held periodically in the towns gave the country people a further opportunity of shopping which they were not likely to have neglected.

Most big towns had their weekly market, and some of them had annual fairs which were attended not only by the people of the neighbourhood but also by visitors from a distance, and even by foreigners who thought it worth while to cross the Channel for the purpose. Some of these fairs, like the horse-fair at Barnet or the hardly less famous St Giles' Fair in Oxford, still continue to exist, but the latter has long since lost its commercial importance. Weekly markets are still a feature of most of our country towns and we are reminded of their early glory by the beautiful market crosses and the mediæval or Tudor market halls, which still remain in many places to testify to the importance and prosperity of these local trading centres in earlier days.

An Elizabethan writer named Harrison, in his *Description of England*, makes the following reference to the regular holding of markets and fairs:

"As there are no great towns without one weekly market at the least, so there are very few of them that have not one or two fairs or more within the compass of the year."

Some of these fairs were more especially for the sale of horses, cattle and livestock generally, but others were more for general merchandise such as wool and leather, cloth and embroideries, iron and steel goods, jewellery and (after the invention of printing) printed books. It would be difficult to over-estimate the importance of the book-stalls in these local fairs as a means of spreading knowledge and literary interest throughout the country, and in this connection it may be interesting to note that in the records of various Oxford colleges is to be found a reference to books purchased for the college libraries at St Giles' Fair.

At a somewhat later date when domestic industry had become fairly general, and handicrafts such as spinning and weaving were practised in farmhouse and cottage, the weekly market in the county town afforded a ready means for disposing of the goods produced.

General Principles.

From this brief historical account of the way people's wants were satisfied in earlier times, we must now turn to the general principles which seem to underlie the spending of the income.

The amount of satisfaction which is actually obtained through the spending of the income depends for the most part on two things:

1. The Method of Spending.
2. The Prices of Goods and Services.

1. Method of Spending.

To begin with the question of method. Some people it is said get so much more for their money than others. They make money go such a long way. How is this to be explained? Many reasons might no doubt be put forward, but there seem to be five principal ones:

(1) They know exactly what they want and they generally get it. They do not take things merely because they are pressed upon them by a keen and persuasive salesman, or because they are to be had at a greatly reduced price.

(2) They are good judges of quality. Two kinds of material may to the unskilled eye look equally good, but the more attractive looking may in reality be of inferior quality and wear out more quickly.

(3) They seem to know where things are to be had best and cheapest, and they are willing to take the trouble to go to such places instead of to those nearest at hand.

(4) They may be what is called "good hands at a bargain," and in that way obtain some advantage of price.

(5) They are able to make sound comparisons between the claims of the various competing wants. They are able to weigh the advantages of what is immediately before them against those of the many other things of which they are in need.

This last consideration is probably the most important of them all, and it is the one most closely connected with what has been said about the order of satisfying wants. It was shown on page 28 that the truly economic method of spending one's income is to distribute one's purchases in such a way as to obtain the greatest amount of satisfaction from one's money expenditure. Every act of purchase involves a comparison between the many unsatisfied wants, and it is a special gift to be able when making a purchase to keep those other wants in view, to estimate correctly their relative desirability, and to realise more or less clearly each of the other needs which would have to go unsupplied if a certain amount of money were spent on this particular thing. Comparison of this kind is not at all an easy matter. To some people it comes naturally; they have a special gift for it, and such people seem to make their money go so much further for they have not sacrificed wants of real urgency to the temptation of the moment.

2. **Prices of Goods and Services.**

The second main consideration with regard to spending is the price that has to be paid for the various goods and services for which the income is exchanged. How far the income will go is not so much a question of whether one commodity or another happens to be cheaper or dearer, but of whether prices as a whole are lower or higher. It is in fact a question of what is called the **general price level.**

If the price level is low, it is evident that the income will suffice for many more purchases, will bring a greater amount of satisfaction. But if the price level is high, fewer things can be bought, and less satisfaction can be obtained. The relation between the price level and the purchases that can be made with a certain amount of money very much resembles the action of a see-saw, prices being at one end and the purchases at the other. When one end is down the other is up, and vice versa.

When prices are low we say the value of money is high because a given sum, say £1, will purchase more, and on the other hand, when prices are high we say that the value of money is low because our £1 note will purchase less. At first sight it seems to be rather a strange thing to say that the value of a sovereign or of a £1 note is more or less at one time than at another. The value of money, it may be argued, is always the same. A pound is always a pound and you can always get twenty shillings for it. This is perfectly true but it must be remembered that we do not value money for its own sake but for what it will bring us in exchange. So it is quite correct to say that a pound is worth more at one time than another according to the amount of things that will satisfy your wants that you can get in exchange for it. At the present day we are often told that taken as a whole everything is more than twice as dear as it was before the War. If this is so, we are justified in saying that money is now worth less than half what it was worth in 1914.

The Price Level.

From the way the term "price level" is used, one is apt to get an idea that it is something which can be raised or lowered like an adjustable reading-stand merely by the application of some controlling force or of some regulating

screw. When we are told, for example, that the price level is high because the Government expenditure is so great, or because the Government has issued so much paper money, or that the only way to lower the price level is for Government expenditure to be reduced, or for the amount of money in circulation to be diminished, one may easily imagine that here are certain forces raising or lowering the level of prices in some more or less mechanical way. But this is a very mistaken idea. The general level of prices is merely the average of the prices of the articles in most general use at any particular time, and we might equally well speak of the level of food prices, meaning the average of the prices of various articles of food, or of the price level of raw materials, meaning the average of the prices prevailing for different kinds of raw material.

The Times has for some time past been publishing monthly a table of the prices of twenty articles of food and twenty raw materials, comparing them with the prices ruling at the end of 1913. From this it appears that the price level of food on August 31st, 1920, was rather more than three times what it was on December 31st, 1913, and that the price level of raw materials was a little less than three times as much, and taking the two together, it would appear that for food and raw materials, what could be bought for £1 in 1913 would in August 1920 cost about £3, or in other words that with regard to these particular commodities £1 would only buy one third of what it did before, and hence the value of money was also only one third. It must not be supposed, however, that all the articles referred to had gone up equally in price. Wheat, barley, oats, potatoes, were about three times as much. Rice was about 4½ times as much: West Indian sugar nearly eight times as much. But, on the other hand, coffee was only twice as much, cheese twice as much, and cocoa 1½ times as much. So it must be remembered that when we speak of a general rise in prices, we do not

mean that all things have gone up equally but that on the average a certain increase is to be noted.

The Cause of High Prices.

From what has just been said, it is evident that in seeking for the causes of a general rise in the price level, we must try to ascertain why the prices of particular commodities have risen, for the price level is, as has been shown above, merely the average of individual prices. The price of any particular thing, as was explained in Book III, Chapter IX, is determined by the interaction of two forces, supply and demand, which act and react on one another through the medium of price changes until an equilibrium price is reached. The forces then which by raising individual prices raise the general price level are nothing more or less than the forces which act behind demand and supply. The interaction of these forces on one another has already been explained at some length in Chapter IX of Part I so it would be advisable at this stage to read that chapter carefully over again. What it may be useful to do here is to point out more particularly how supply and demand have been affected by the War and by post war conditions.

Demand.

To begin with the side of demand. It has already been pointed out that demand remains ineffective so long as the consumer is without the means of purchasing, but if his means of purchasing are increased his demand is almost certain to increase. One of the great features of industry under war conditions was the very great increase that took place in the remuneration of labour and in business incomes generally. This was accompanied by the issue of large quantities of paper money and by increased borrowing facilities. The result of this was that spending power was considerably augmented and hence that demand was similarly increased.

Supply.

If supply could have been extended to meet the increased demand, it is possible that very little if any increase in prices would have taken place, but the very opposite was the case. Much of our own industrial effort was devoted to war purposes and hence our home supply of most articles of general consumption was considerably diminished while higher wages, dearer raw materials, and increased cost of production generally tended constantly to raise supply prices. Besides this, that portion of our supply for which we were depending upon foreign countries, or even on distant parts of the Empire, got smaller and smaller as the War went on owing to submarine action and the prohibition of imports consequent on the want of shipping and the difficulties of payment. The goods we had hitherto obtained from the enemy countries were of course shut off altogether as were also at a later date the vast supplies of food and raw material which we used to obtain from Russia. The disproportion between an increased demand and a diminished supply may be regarded as a summary of the causes of the present high prices.

Some of the forces affecting demand and supply in general have already been mentioned as having been operative during the War or in the period which immediately followed it, but it may be convenient to set out these forces in a more tabulated form.

1. **Demand** in general would be stimulated by:
   - (*a*) the feeling of optimism which a period of brisk trade and rising prices usually seems to bring in its train,
   - (*b*) an increase of currency,
   - (*c*) greater facilities for obtaining credit,
   - (*d*) a more or less general increase of money income,
   - (*e*) an improvement in productive methods such as cheaper power or cheaper transport which would

tend to reduce cost and bring goods within reach of a wider circle of consumers.

2. **Demand** in general would be diminished by:
   (*a*) the feeling of pessimism which usually accompanies a period of falling prices and slack trade,
   (*b*) a diminution of currency,
   (*c*) a restriction of credit facilities,
   (*d*) a more or less general diminution of income,
   (*e*) more or less general causes which increase cost of production and exclude the weaker buyers.
3. **Supply** in general would be stimulated by:
   (*a*) a period of brisk trade and rising prices,
   (*b*) any general increase in demand,
   (*c*) any general improvement in productive methods at home or abroad,
   (*d*) increased credit facilities,
   (*e*) improvements in transport.
4. **Supply** in general would be diminished by:
   (*a*) a period of depressed trade and falling prices,
   (*b*) a general falling off in demand,
   (*c*) any general cause of increased cost of production such as dear coal, dear transport, etc.,
   (*d*) restricted credit facilities,
   (*e*) a withdrawal of labour from industry for war purposes or as a consequence of strikes in basic industries such as mines or transport,
   (*f*) the interruption of sea transport or the severance of economic relations with countries formerly important sources of supply.

Prices, General and Particular.

When considering the amount of satisfaction which can be obtained with a given income, it is important to recognise

what a great difference in results there is between (*a*) variations in the price of a particular commodity or service and (*b*) variations in prices in general. It would need a very great alteration in the price of a single commodity to have any noticeable effect on the general price level, and therefore in such cases the amount of satisfaction that can be obtained from the income is not seriously affected unless it happens to be something that plays a considerable part in economic life, either because so much of it is used or because it is so much of a necessity. If the price of bread or milk or potatoes or coal were suddenly raised, it would in the case of people not very well off who probably expend a considerable part of their income on such things involve perhaps a serious curtailment of expenditure in other directions and in the case of people with quite small incomes might even mean a giving up of what might almost be regarded as necessaries, whereas a considerable rise in prices of this kind would not seriously affect the amount of satisfaction derived by the well-to-do because such an increase would represent a very small portion of their income.

A general rise in prices on the other hand, even if it were only a comparatively slight one, would represent a corresponding rise in the price level, and so have a much greater effect on the whole standard of living. In the case of a particular commodity the demand for which is elastic, the increase in price would lead many to give up using the article in question and in this way the increase would have practically no effect on the standard of living, but the effect of a general rise in prices is bound to be felt unless at the same time there is a corresponding increase in income.

Measuring the Price Level.

The general level of prices at any given time is indicated by means of what is called an **index number.** A list is made of the commodities in most general use. Against

each is put the average price taken over a period of years as well as the price current at the time at which the price level is required to be ascertained. The former price is then regarded as being 100 and the latter is expressed as a percentage of it. Thus, if the price of sugar had altered from 25*s.* a cwt. to 37*s.* 6*d.* a cwt., the figure placed against sugar in the table would be 150. The percentages similarly obtained for all the other commodities are then added up and divided by the number of commodities, the quotient giving the index number for the particular date. It is evident that what this index number will be depends on (1) the date at which the current prices are to be taken as the standard, (2) the commodities chosen for the list, (3) whether the prices quoted are wholesale or retail.

When an index number therefore is quoted as evidence that a certain rise in prices has taken place, it is important to note which year or period of years is chosen for the standard, and how the list is compiled.

CHAPTER V

SAVING AND SPENDING

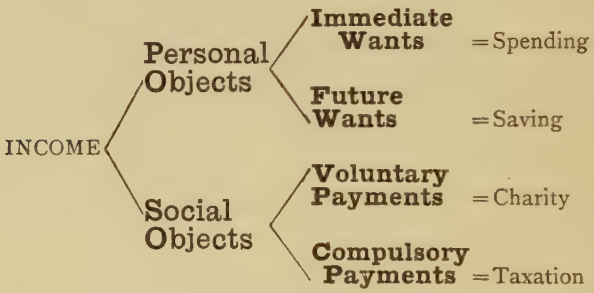
"Capitals are increased by parsimony and diminished by prodigality."
ADAM SMITH.

THE satisfaction of the daily wants comes, it has been shown, for the most part through income, but the whole of the income is not available for this purpose. The purposes to which the income is applied may be divided into two groups—personal and social. In the latter group we may place the claims of the state which constitute a compulsory deduction from our income, together with the claims of

those less well off than ourselves, and of the various religious and philanthropic bodies which enlist our sympathies and appeal for our support.

Personal expenditure is of two kinds: (1) aiming at the immediate satisfaction of wants, (2) aiming at providing a store of wealth which through being used to assist productive effort will be a source of future enjoyment to ourselves or to those dependent on us. The former is generally known as **spending,** the latter as **saving.**

It is clear then that when speaking of what we have to spend, we mean that portion of our income which we do not save, which does not go in taxes, and which we do not give away to charitable objects.



The question of charity is outside the scope of Economics, and that of taxation is being dealt with at some length in a later chapter; so for the present we will confine our attention to the problem of "spending and saving."

Saving.

First of all we must enquire what the economist means by the term *saving*. *Saving* in the economic sense is not the same as hoarding, *i.e.* the putting away of money or valuables in a safe place either for the mere pleasure of possession or for use in case of emergencies; it is not merely providing for future wants as the diagram above

might almost suggest, but *saving* means turning wealth into capital by deliberately applying it to productive purposes instead of to the immediate satisfaction of wants, or in other words to consumption purposes.

An example from everyday life will make this perfectly clear. When the farmer has got in his harvest, it represents to him both food for the coming year and the seed that will be wanted for the next sowing. If he sets aside only just so much as will replace his former stock of seed, etc. and consumes the rest, he is using the whole of his income for present needs; he is not saving. But if he is a prudent man he will put aside more than that. He will say, "I must make some provision against bad harvests, or old age, or starting my children in life," and so he will use more of his crop as seed or he will exchange some of his wheat for better implements or for more fertilizers, with the idea that in this way he will get larger crops in the future. By so doing he has "saved" some of his income, *i.e.* he has increased his capital, he has postponed the enjoyment of a certain portion of his wealth in order that he may be able to satisfy his wants more fully in the future[1].

If, as is generally the case in everyday experience, the income is received in the form of money, and the daily wants are satisfied through the process of spending, saving takes a somewhat different form, but in essence it is exactly the same. That part of the income which is not spent, given away, paid to the Government as taxes, or put away in a safe or money box, is in the economic sense of the term *saved*. It may be put into the savings bank, it may be deposited with a banker, or it may perhaps be invested in some industrial or commercial undertaking, in either of which cases wealth has been saved and capital has been

[1] The meaning of the term *Production of Wealth*, and the distinction between *Wealth* and *Capital* are explained at some length in Part I of the present work, the former on pages 22–24, the latter on pages 38 and 39.

increased. The person who saves is not in such cases the actual user of the capital, but those who receive it from him either use it themselves or lend it to others, with the result that part at any rate of the ultimate earnings of the capital—(i.e. the payment for the services of capital) is paid to the one who *saved,* and becomes an addition to his income.

Motives for Saving.

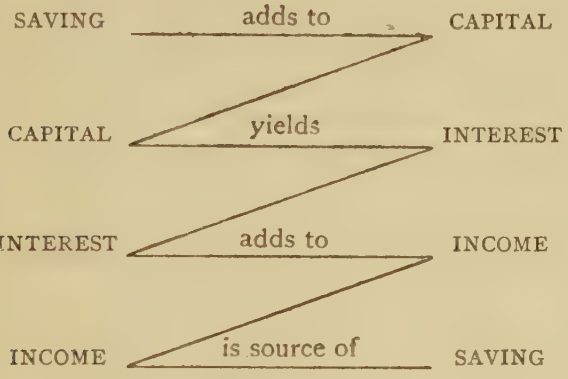
There are three principal motives for saving:

(1) **Duty.** Many people have others dependent on them. They regard it therefore as a duty to set aside part of their income so that in case of their death, those dependent on them may be provided for.

(2) **Prudence.** No one knows what the future has in store. Illness, accident, trade depression, loss of occupation, may cause the income to diminish or even to cease altogether. "Putting by for the rainy day" enables one to provide for such emergencies. Providing for old age and for the period of retirement from active work is another form of prudence. At certain times of the year besides and at certain periods of life, expenses are heavier than they are at others. It is prudent to provide for such occasions by saving part of the income during the period when expenses are more normal.

(3) **Economic Advantage.** Saving, it has been shown, adds to capital and it adds also to the future income of the person who saves. If a man were to save £500 and to invest it at 6 °/₀ interest, the £500 would be available at any time for any particular need or emergency that might arise, and all the time that he was postponing the spending of it he would have an addition of £30 a year to his income. The possession of capital too gives economic strength. It enables a man to take advantage of some opportunity of improving his position in life, it enables him to engage in business which is not immediately remunerative but which promises

good returns in the future. Thus saving brings with it two important economic advantages—available capital and increased income.



SPENDING AND SAVING.

Spending and saving have one thing in common. In both cases wealth is given in exchange for certain goods and services, but the difference is that the goods and services are not put to the same use. In the case of spending, the goods and services are applied directly to the satisfaction of wants; in the case of saving, the goods and services are applied to the production of other wealth, and so they bring satisfaction of wants indirectly instead of directly. For example, if a man who was about to spend £100 on additional furniture changed his mind and bought instead new inventions or appliances which would enable him to get more work done in a given time, he would have substituted saving for spending; in each case a purchase would have been made, but the use to which the thing purchased was put was wealth production instead of wealth consumption.

It would appear then that spending and saving are both essential features of our everyday economic life. Wealth is only produced because there is the desire to consume it, but since capital, the result of saving, is one of the necessary

factors of wealth production, wealth must not only be produced for present consumption, it must be produced also for consumption at a future date.

This being so, it is very curious to note what very opposite views are held about the duty or the wisdom of saving. Some say that the best way to benefit the community is to spend, and others that this can only be done by saving. Those holding the former view point to the advantage to trade of people spending their money freely, of making their money circulate, etc. It is true that when expenditure is on a larger scale, more trade is being done, and this is good for traders as a whole. Also that when people are spending, they are demanding commodities, and this is good for the manufacturers or producers. But this is rather a shortsighted view. Manufacturers require capital. The more people demand, the more efficient must be the industrial effort that supplies that demand and efficiency implies increased use of capital. If therefore people were to spend all their income in the immediate satisfaction of their wants, there would be a shortage of capital, which in its turn would result in industry being less productive, in a shortage of goods of all kinds, and in a great increase of prices, so that in the long run money incomes would bring less satisfaction than before and people on an average would have less to consume.

Turning to the opposite point of view—viz. that saving is better than spending—we shall see that to lay this down as a general rule is equally erroneous, and if we were to carry it to a logical conclusion, it would involve us in an evident absurdity. If everyone were to save instead of spending, *i.e.* if everyone were to buy machines and tools and raw materials instead of the things that would satisfy their wants, who would buy the goods which these machines turned out? Besides, it is evident that people must buy something to eat and to wear or they could not live. Even

supposing that the advocates of saving rather than spending made the reservation that saving would of course only come in when the necessary wants were satisfied, we should then be justified in pointing out that the motive for productive effort would be gone. If no matter what a man earned he would only be free to devote a portion of his income, perhaps a very small portion of it, to the satisfaction of his wants, the incentive to effort would be gone and there would be economic stagnation.

The truth seems to lie between these two extreme views. There must be a balance between Production and Consumption, between Effort and Satisfaction. If there is no demand, what is the use of increasing the supply? If there is no supply, how can the demand be met? Spending means present satisfaction, and saving makes possible increased satisfaction in the future. The prudent man thinks of the future as well as of the present, and he uses his income most economically when he so distributes his income between spending and saving, between present and future enjoyments as to secure the greatest aggregate amount of satisfaction. Under normal conditions, economic forces tend to adjust this balance between spending and saving. If people are saving too little, capital becomes scarce and the rate of interest rises. This increases the amount that can be enjoyed in the future and greater saving results. On the other hand, if people are saving too much, and capital becomes superabundant, the rate of interest falls, there is less in the way of future enjoyment to attract, and saving diminishes.

At the present time there is special need for saving. Much accumulated wealth—the result of past saving—has been destroyed during the War, and much capital in the form of machinery and plant now needs replacing. New industrial developments besides are taking place all over the world. In countries ravaged by war, towns and houses

have to be rebuilt, industries to be re-established, while in our own country industries have to be converted from war conditions to peace conditions. It must also be borne in mind that with the present high prices of everything, far more capital (as measured in money) is required for any particular industrial or commercial enterprise than was the case before the War.

Under these circumstances capital is in great demand, and there is a special reason why in addition to the inducement offered by an exceptionally high rate of interest, expenditure on luxuries should be curtailed and as much of the income as possible should be saved.

CHAPTER VI

THE SOCIAL SIDE OF SPENDING

"No man lives to himself alone, and there is a very real, if not very easily measurable, influence which the personal and private life of each exercises on the well being of others." CUNNINGHAM.

SPENDING has hitherto only been regarded from the strictly economic and individual point of view. So far the one test applied to spending has been: "Did it bring to the individual the greatest possible satisfaction of wants?" "Spending well" has been taken to mean not "spending wisely" but "spending economically," *i.e.* getting as much satisfaction as possible from a given amount of expenditure.

There is however another point of view, viz. the social, that of the community as a whole, of society at large, and this demands a very special consideration. No individual can be regarded as being altogether apart from the society to which he belongs. His actions affect others as well as himself, and he has to submit to certain laws and regulations

framed in the general interest. The Englishman is very proud of his freedom, but it is a purely negative one. No law contains any statement as to the liberties which he actually enjoys, but he is free to do everything which is not forbidden by law. What applies to a man's activities in general applies also to his expenditure. It is recognised that his expenditure may not always be wise, that it may not always tend to make him a more useful member of society, and that it may actually prove injurious to his fellow members. The law interferes hardly at all with a man's methods of spending his money so far as it affects only himself, but it does to a certain limited extent control his expenditure in cases where it is likely to be in actual conflict with the general interest.

As to the extent to which government should control expenditure, there is great difference of opinion. Some would argue that no restrictions should be placed on spending, that every person should be left free to spend his or her income just as he or she pleases. Others would take the opposite point of view and assert that the Government should consider the interests of society as a whole and not those of the individual, and that the spending of the income should be so regulated by the State as to secure the best interests of the community.

Between these two extremes there is the more moderate opinion of those who would like the individual to have as much freedom as possible, but who would contend that in the case of any form of expenditure which could be shown to be distinctly hurtful to the individual consumer or to other members of society, the sale of such things should be controlled or regulated by the State.

In this country, as has just been pointed out, we are accustomed to enjoy considerable liberty in this matter of spending the income, but our spending is not entirely uncontrolled. For example, certain restrictions are placed on

the sale of poisons and of alcoholic drinks, while the sale of tobacco and intoxicants to children is forbidden altogether. The State, too, interferes in the interests of consumers by laws forbidding adulteration, more especially of food. Some things, again, cannot be sold without a special licence and only in particular places and at particular hours. These restrictions are imposed in the interests of society at large. It was found that the unrestricted sale of drugs (many of which may be classed as poisons) sometimes resulted in fatal accidents and sometimes even in crime; that the uncontrolled sale of intoxicants led to a great deal of drunkenness and so was the cause of much poverty, misery and social degradation. It was considered therefore to be for the public good that these things should be brought under control and the necessary regulations have, as a whole, met with general approval.

Sumptuary Laws.

In earlier times the State interfered far more with buying and selling than it does at the present day. **Sumptuary Laws,** forbidding the use of certain things and insisting on the use of others, were very common. In Spain, for example, at the end of the 16th century, there was so much luxury in dress that the Cortes, as the Spanish Parliament is called, frequently complained that the people were being tempted to squander their money on useless finery such as brocades, velvets, and silks, and as a consequence of this the reigning monarchs, Ferdinand of Aragon and Isabella of Castille, issued a proclamation forbidding the manufacture, sale, or use of silk for any sort of garment. In England, in the time of Charles II, an act was passed requiring all persons to be buried in woollen shrouds, the object being to check the importation of linen and to encourage the manufacture of wool. In Scotland not many years later the very opposite was enacted. It was then desired to stimulate the

manufacture of linen, and hence it was made illegal to be buried in any other material. Again, when, after the revocation of the Edict of Nantes, in 1685, many Huguenot refugees came to this country, laws were passed to promote the development of the industries they introduced into this country, one of the chief of which was the spinning and weaving of silk. With this object in view, the use of silk for covering buttons and for working buttonholes was made compulsory. This regulation however led to loud complaints from those engaged in the woollen trade, then our staple industry. So before very long another Act was passed requiring people to wear buttons covered with serge instead of with silk.

Another way of regulating the sale of commodities very common in the Middle Ages was the **fixing** by authority **of prices** at which goods should be sold. Of this the English Assizes of Bread and Ale afford very good examples. For instance, the Assize of Bread of 1202 provided that the weight of the farthing loaf was to vary with the price of wheat; and in the Assize of Ale of 1266, the number of gallons of ale which were to be sold for a penny was regulated according to the price of barley, and there were many other regulations providing for the uniformity of weights and measures for the maintenance of a standard weight and quality of woollen cloth, etc.

Before the War we were accustomed to regard Sumptuary Laws and laws regulating prices as things of the dim and distant past, but as a consequence of war conditions the Government found it necessary in the national interest to restrict by a system of rationing the consumption of meat, tea, butter, sugar and other articles of food, to limit the amount of coal, gas, electric light, consumed by each householder, and to prohibit the sale of certain articles altogether. Restrictions also were placed on our personal movements by making the use of petrol dependent on getting the necessary permit and by regulating railway traffic. During the

War then it may be said that the spending of our income was in the general interest guided, restricted, controlled by Government.

Spending and the Producers.

But apart altogether from those cases in which the regulation of expenditure may be considered a matter for government interference, it will easily be recognised that almost every act of spending has its social side. It is our demand for a particular commodity or service which in general leads to its being supplied. When we buy things we are stimulating people to make or to procure what we ask for. Our purchases therefore directly affect those who produce the commodity or render the service.

The particular form our expenditure takes may lead to:

1. The diversion of capital and labour from an employment of greater social advantage.
2. The devotion of a great deal of labour and capital to the production of something which after all can only give some momentary pleasure or satisfy some passing whim.
3. The employment of people in occupations which may be dangerous or injurious.

Examples of these will readily occur to everyone, but one of each might with advantage be given here. If, for instance, when many people were homeless for want of sufficient houses, and there was great scarcity of labour in the building trade, a large number of people were employed in building places of entertainment, we should get a very good example of (1). An example of (2) may be found in the demand for many forms of luxury, such as expensive dresses or ornaments, which are very costly to produce and which give disproportionately little in the way of present pleasure or happiness. Amongst dangerous or injurious occupations

may be mentioned explosives, various chemical products, and certain kinds of matches, but such industries are only carried on under Board of Trade regulations and hence their injurious effects are so far as possible minimised.

The conflict that may in certain forms of expenditure arise between individual satisfaction and the interests of the community may also be noticed where the consumption of the article in question has an injurious effect on the consumer himself, rendering him less efficient as a producer, and hence tending to diminish the productive capacity of society as a whole. Over indulgence in alcohol is perhaps the best example of this, for by such excess a man not only does himself positive harm but also renders himself a less useful member of society.

Spending and other Consumers.

It is evident then that the consumer has a duty towards those whose efforts supply his wants, and he has quite as much a duty to his fellow-consumers whose power to consume may be diminished by certain particular forms of expenditure. It would not be difficult to imagine, for example, that a considerable demand for certain forms of extravagance—say vegetables or fruit out of season—might absorb labour and capital which would otherwise be devoted to the production of food in more general demand, the supply of which is consequently diminished and the price increased.

The Problem of Luxuries.

With regard to expenditure on luxuries, we shall find for the most part people adopting one of three attitudes:

1. The purely **selfish,** i.e. "Why not enjoy what one has when one can? Why provide for the future or take thought for the well being of others? Let others look after themselves."

2. The **prudent**—"Waste not want not. Your need in the future may be greater than it is now."

3. The **social**—"When spending your money think how it affects others."

The man who takes up the first attitude would say that any luxury he could afford was perfectly justifiable. That he was free to do what he liked with his money. The man who takes up the second, would declare luxury as an habitual thing to be uneconomical and unwise, but would regard occasional extravagance on his part as something quite permissible. The man who takes up the third would look upon luxury as being neither good nor bad but in itself as something which should be judged according as it affects other people. Let us examine this question of luxury a little more closely, and let us ask ourselves the question: Are all luxuries and all forms of extravagance to be condemned from a social point of view? We need not here consider it from the point of view of the individual whether it is good for him or not, but from the point of view of Society as a whole. It is often said that it would be better for everybody if all the labour now expended on the production of luxuries or on the satisfaction of extravagant wants were devoted to the growing of the more necessary foodstuffs, the manufacture of material for good and suitable clothing, the building of sound, well-planned, sufficiently roomy houses, etc. but it is not clear that this is the case.

Luxury is sometimes said to be justified socially because:

1. Luxurious expenditure gives employment to many and is generally good for trade.

2. The demand for articles of luxury calls for greater refinement and greater skill on the part of those who produce them.

3. Luxurious expenditure transfers wealth to those

who will make a better and more socially advantageous use of it.

4. The desire for luxury is a mark of progress and at the same time a stimulus to invention, to productive improvement, and to the fuller exercise of capacity.

Let us examine these claims one by one.

1. It is true that the demand for luxuries leads to the employment of the people who produce them, but would there not be an equal amount of employment if the money were expended in some other way, and would not the trade in other things be equally brisk?

2. This is probably true in some cases though by no means in all. Some forms of luxurious expenditure do certainly encourage the industrial arts but many others do not and they sometimes lead to the employment of much comparatively unskilled labour.

3. This certainly depends on circumstances. Three cases can be imagined:

(*a*) Money is paid for something which involves, as in the case say of gambling debts, no expenditure of labour at all. The purchasing power represented by that money is therefore merely transferred from one person to another and there is no reason to suppose that the receiver will make a better use of it than the man who paid it.

(*b*) The luxury is one for which a fancy price is paid, for instance, some very expensive article of clothing of a specially fashionable make, or something for which the eagerness of the buyer has led to an enhanced price. In such cases a portion of the amount paid is an equivalent for the work expended on it and part as in (*a*) is a mere transfer of wealth from one person to another.

(*c*) The amount paid is a fair price for the article in question, in which case the only question would be whether the labour and capital bestowed upon its production would have been more usefully employed in something else, as suggested in the example of the vegetables and fruit out of season given on p. 59.

4. There is very little doubt that the desire to get things at present unattainable fires ambition and leads to the putting forth of greater powers of mind and body. A young man in poor circumstances, seeing others enjoy more of the good things of life than he can possibly obtain, makes up his mind that he will work hard, get on, and ultimately acquire them. He accomplishes perhaps his purpose and through his energy and capacity he becomes the head of a big manufacturing concern. He has, doubtless, improved the methods of manufacture or the office organisation of the undertaking with which he is connected, or he has found openings for fresh business and so has brought wealth and remunerative occupation to a great many others besides himself. The existence of luxury is an indication that progress social and economic has taken place.

To sum up then, luxury is not in itself necessarily an evil though many forms of it may be personally injurious and socially undesirable. During the War there were special reasons why luxury should be avoided, and why it was a national duty to economise in expenditure. During the War when millions were taken away from their ordinary employment to serve in the Army, Navy, or Air Force, when so much labour and capital were necessarily devoted to the production of war material and to feeding and clothing the fighting forces, there was comparatively very little labour and capital left for satisfying the ordinary everyday needs of the people at home. Under such circumstances it seemed to

be directly contrary to national interests to encourage the production of luxuries, and further, since the nation was for so long a period spending considerably more than its income, much capital was being used up and it was an imperative duty, as it still is, more than two years after the cessation of hostilities, that fresh capital should be accumulated so that our industrial life may be restored to full strength and vigour. This accumulation of fresh capital involves care in expenditure, and this involves to some extent doing without luxuries.

What is Waste?

Before leaving the question of consumption, a word must be said about waste. What is the economic meaning of this term? From an economic, though not necessarily from an ethical point of view, waste is not merely spending large sums of money on things one could do without; it is spending money without a corresponding amount of satisfaction in return. Money however as has frequently been pointed out is merely an intermediate factor between effort and satisfaction, the effort resulting in a money income and the money income bringing satisfaction by being spent. Hence waste may equally well be defined as making an effort which does not bring a corresponding return in the way of satisfaction.

Thus expenditure on luxuries which yielded a satisfaction equal to what they cost would be economically sound, but from the social point of view expenditure must be considered in relation to the use of labour and capital which their production has necessitated, and thus Professor Gide identifies waste with unjustifiable luxury which he says consists in "a disproportion between the quantity of social labour consumed and the degree of individual satisfaction obtained."

Let us illustrate this by one or two examples. If a wealthy man were to spend £5000 on a picture which he

very much admired, and which he felt gave him a satisfaction equal to £5000 spent on anything else, from his point of view there would be no waste, and since his purchasing this picture did not absorb any productive power, it could not be considered waste from a social point of view either. But if a man gave a magnificent banquet which involved the consumption of food, drink, flowers and service, from his point of view again there might seem to be no waste because he felt he got his money's worth, but from the social point of view this very fleeting enjoyment may have involved a very disproportionate expenditure of labour and capital, and hence might be regarded as waste.

This idea of waste as involving individual satisfaction not proportionate to social expenditure of effort is closely connected with the ordinary conception of waste, examples of which we are all familiar with in our daily experience. When food is thrown away uneaten, when things are allowed to spoil from not being properly looked after, when work is done which nobody asks for and which brings no satisfaction to the worker or anybody else, we should all agree that food, things in general, or effort have been wasted. Everything that is wasted is so much subtracted from the National Dividend which, as was shown on page 12 is the total annual amount of goods and services available for consumption. The more of the National Dividend that is lost to the community because it is wasted, the less there is for the community as a whole to consume, and the less satisfaction of their wants do those get a part of whose means of enjoyment is thus destroyed.

Destruction of wealth which brings with it no satisfaction at all such as results from an accident or an act of deliberate intent, is always waste. The money expended on replacing it yields no additional satisfaction. This is well illustrated by the well-known story of the *Broken Pane* told by the French economist Bastiat:

A young ne'er do well, the son of an honest citizen named Jacques Bonhomme, happened to break a pane of glass. The neighbours gathered round and tried to calm the enraged parent by assuring him that such little accidents were good for trade. "What," they said, "would become of the glaziers, if no windows were broken?"

Bastiat then makes use of the story to point out the fallacy of this type of argument, showing that it is based entirely on *the things we see* and ignores altogether *the things we don't see.*

In this case, he says, supposing that the window cost six francs to repair, the accident has led to the glazier's getting six francs and to his trade being benefited to that extent.

This is what we see.

From this some might argue that it is a good thing to break windows, as it helps to make money circulate and is good for trade. But since Jacques Bonhomme has had to spend six francs on mending the window, he has six francs less to spend on other things. With this sum he could have had his boots repaired or he might have bought an interesting book. Thus though the glazier's trade is improved to the extent of six francs, the shoemaker or some other tradesman has lost trade for a similar amount which he would otherwise have had.

This is what we don't see.

So far it has been shown that six francs has been paid for a new window instead of being spent on something else and so trade in general has not benefited at all by the accident.

But how has all this affected Jacques Bonhomme himself? He has spent his six francs on a pane of glass which simply takes the place of the one he originally had and so is no better off than he was before the pane was broken. If the accident had not happened he would have bought

something else with the six francs and would have had the use of that something else as well as of the pane of glass.

By the "Broken Pane" therefore Jacques Bonhomme has suffered a personal loss which is measured at six francs, and, as he must be regarded as a part of the Society to which he belongs, this amount represents also the loss to the Society as a whole.

BOOK VI

THE ECONOMIC LIFE OF THE STATE

CHAPTER VII

THE WANTS OF THE STATE

"Every governing body or 'state' requires for the due discharge of its functions repeated supplies of commodities and personal services, which it has to apply to the accomplishment of whatever ends it may regard as desirable." BASTABLE.

THERE is an Economic side to the activities of the State just as there is an Economic side to those of the individual. The State has need of an income because it has expenditure it must meet, and that expenditure is necessitated by the fact that the State has wants which have to be satisfied if the functions of Government are to be satisfactorily discharged.

THE STATE AND THE INDIVIDUAL COMPARED.

The State like the individual has wants, but the means of satisfying these wants are for the most part provided not by its own economic efforts but by the economic efforts of the members of the community as a whole. On the other hand, it may be argued that the State renders to its subjects certain services of protection, of public administration, and of general utility for which it may claim a payment, and that in this respect the income of the State resembles that of the individual inasmuch as it is received in payment for services. But this analogy must not be pushed too far, for whereas in the case of the individual the person who pays

is the person to whom the service is rendered, and the amount paid may be taken to be the value of the service rendered, in the case of the State, the community as a whole pays the full amount required, but the individual members who contribute do not necessarily benefit in any way from the service rendered, or at any rate there is no necessary relation between the amount paid by any given person and the benefit that person receives. For example, the State provides public education towards the cost of which all must contribute, but all do not equally benefit, for some send their children to private schools and some have no children to send. It is the same also with the protection afforded by the State, there is no necessary relation between the services rendered to any individual member of the community and his or her contribution towards the upkeep of army, navy, etc.

A second difference between the economic life of the State and that of the individual will be seen when the State is looked upon as an employer of labour. The services which the State renders to the community are rendered by a very large number of persons in Government employ. Soldiers, sailors, civil servants, judges, ministers of the Crown, and many others are all paid servants of the State. But unlike an ordinary employer, the State does not engage people with a view to profit-making, or for any advantage of its own, but it is acting on behalf of the people as a whole and its activity is directed towards securing their ultimate advantage.

A third difference will be found in the connection there is between wants and their satisfaction. The individual makes the effort in order to obtain satisfaction of his wants, but the income derived from that effort does not serve to satisfy all his wants: some of his wants are bound to remain unsatisfied and the extent to which his wants are satisfied depends on the size of the income. With the State it is otherwise. The Government decides that certain expenditure

shall be incurred and then sets about collecting an income that will be sufficient to cover that expenditure. Thus the income is determined by the expenditure and not the expenditure by the income; and it is not regulated, as in the case of the individual, by the value of the services rendered but by the cost of rendering those services and of carrying out the Government's policy in general.

The Economic life of the State is a large subject and only a very small part of it can be touched upon here, viz. that which directly affects the spending power of the individual members of the community, or in other words, the portion of each individual's income which the State demands in taxation.

In this connection we shall perhaps get the clearest view of our subject if we attempt to answer the three following questions:

(1) What is meant by the expression "the wants of the State"?

(2) How does the State obtain an income with which it can satisfy its wants?

(3) With regard to that portion of the State's income which is derived from taxation, how is it determined what each individual's contribution shall be?

The Wants of the State.

When we speak of the wants of the State we are not using the term in precisely the same way as we do in the case of an individual. The State has no desires for the satisfaction of which it is willing to make effort or sacrifice. But it has needs or requirements, and these may be regarded as playing the same part in the Economic life of the State as wants do in the Economic life of the individual. Certain things such as the preservation of order, the administration of justice,

the defence of the country against attack may be regarded as "necessaries"; some, like a well ordered scheme of civil administration or a highly developed educational system, may be regarded as "comforts," while others, such as stately buildings or costly display on ceremonial occasions, may almost be looked upon as luxuries. We may even carry the parallel a little further and say that the State like the individual has a certain standard of living, and that what might well be regarded as luxuries in the case of a small state might perhaps be classed as necessaries in the case of a large and powerful one.

The wants or needs of the State arise out of its functions. The more extensive these functions are the larger will be the income required to satisfy the wants which arise in connection with them. Widely different views are held as to what the functions of the State should be. Extreme individualists have said that the sole function of Government should be the protection of the individual against force and fraud—that the State in fact should be a mere policeman. Extreme socialists on the other hand would entrust to the State the regulation and control of practically every form of personal and social activity—including the production and distribution of wealth and the way in which it is enjoyed. Between these two extremes there is a great variety of opinion, all agreeing that the State may usefully interfere in the interests of the community as a whole or for the protection of weaker members of it, but disagreeing as to the extent and nature of such interference. The functions of government are very considerably wider to-day than they were a hundred years ago. Many things which were then left entirely to the individual are now regulated by the State. It has come to be recognised that the social well-being of the community is a matter of first rate importance, and that it is the duty of the State to promote it and to safeguard it so far as it possibly can.

The conditions under which work is carried on, the relations between employer and employed, education, pensions for old age and insurance against accident, ill health and unemployment have all been made the subject of legislation, and the administration of the various acts involves a considerable extension of the functions of government.

This extension of functions creates new wants for the State, to satisfy which an ever-increasing income is required. A comparison between the expenses of **civil government** at different periods gives us a very good guide to the extent of the increased activity just referred to.

In 1833 the expenses of civil government were approximately							$8\frac{1}{2}$	millions
„ 1854	„	„	„	„	„	„	$11\frac{1}{2}$	„
„ 1874	„	„	„	„	„	„	$22\frac{1}{2}$	„
„ 1895	„	„	„	„	„	„	27	„
„ 1914	„	„	„	„	„	„	75	„
„ 1920–21	„	„	„	„	„	„	500	„

One item included in the above is especially worthy of notice. The cost of **public education**

in 1854	was only		$\frac{1}{2}$	million,
but in 1895	it had risen to		$9\frac{1}{2}$	millions
in 1914	„	„	$19\frac{1}{2}$	„
in 1920	„	„	39	„

and for the year 1920–21 it is estimated that the expense under this heading will not be less than 56 millions.

The **functions of the State** are exercised by means of Government Departments, each undertaking a particular field of work. As the functions are increased new Departments are created to carry them out, and since each of these departments employs a large staff of officials and clerks, it will easily be seen that the extension of government activity means an increase in the number of persons employed by Government, and a corresponding decrease in the number of those engaged in industrial or commercial occupations. Thus it would seem that every extension of the field of governmental activity brings with it a double loss, since

less wealth is being produced while more of what is being produced is being taken for the State. This may be true in some cases, but it would not necessarily be so in all. Much of government expenditure may be said to confer indirectly an economic benefit on the community. Education, for instance, and some schemes of social improvement tend to increase productive capacity and in this way yield a return for the outlay incurred. Such expenditure, however, is of the nature of an investment, and power to invest depends on the financial position of a nation as well as of an individual. Schemes that could with advantage be undertaken when a nation is prosperous might be very unwise in a time of national poverty and general trade depression.

The Civil Services vote for 1920–21 seems quite out of all proportion to that for the pre-war years. These very large estimates may be regarded as a consequence of our having been engaged in a long war which has left behind it a great deal to clear up and which has necessitated a very large scheme of reconstruction.

The **expenditure** would come in the main under the three following headings:

(1) the largely increased staffs still considered necessary in the various Government Departments,

(2) the maintenance of new Departments set up during the war or after the armistice,

(3) the provision of service pensions, of unemployment allowances, of bread subsidies, etc., etc.

Since 1914 new Departments have been set up to deal with Munitions, Shipping, Pensions, Labour, Mines, Overseas Trade and National Health, to which may be added Departments which were set up for purely war purposes and were disbanded as soon as peace was restored such as the War Trade Department, the War Trade Intelligence Department and the Foreign Trade Department.

Expenditure on the **Army and Navy** has also been increasing though not in the same proportion and the figures for the same years as those for which Civil Expenditure has already been given will be useful for purposes of illustration and comparison:

In 1833	expenses	on	army	and	navy	were	approximately	14 millions
„ 1854[1]	„	„	„	„	„	„	16½	„
„ 1874	„	„	„	„	„	„	24½	„
„ 1895	„	„	„	„	„	„	35¼	„
„ 1914[2]	„	„	„	„	„	„	77¼	„
„ 1920–21[3]	„	„	„	„	„	„	230	„

[1] Before the Crimean War. [2] Before the Great War. [3] Including Air Force.

Voluntary Services.

So far mention has only been made of those who receive payment from the Government for the services rendered in connection with its various functions, but it is important to remember that in this country a great deal of administrative and judicial work is done by people who give their services without payment. Of these it is sufficient to mention County and Borough Magistrates (Justices of the Peace) and Members of County Councils, Town Councils, District and other Councils, Boards of Guardians, etc., who with many others render valuable public services without reward of any kind.

Local Government.

When dealing with the wants of the State it should be noticed that some of these are connected with the Central Government and some with Local Government. Local wants arise for the most part in connection with public activities of a purely local character, such as Police, Lighting and Paving of the Streets, Maintenance of the Roads, Providing for the Relief of the Poor, and the upkeep of asylums and other public institutions. Education comes under both headings. The figures given above were for Central expenditure on Education. These however only represent a portion of the cost of Public Education. Much of it is met locally and

absorbs a considerable part of the rates levied by County and Borough Councils.

Productive Expenditure.

Government expenditure, whether central or local, is often divided into two classes—**Productive** and **Unproductive.** It is not a question as to whether the money is well spent or not, or whether there is an adequate return to the community in the way of benefit or advantage for any particular outlay, but as to whether or not the Government obtains any revenue from this particular use of the funds at its disposal. From this point of view money spent on Education would be regarded as unproductive expenditure, because in spite of the fact that it increases the intellectual and productive power of the country generally, it does not result in income to the State. Money spent on the Postal, Telegraph and Telephone services, on the other hand, would be counted as productive expenditure as also would the various forms of municipal trading, such as Gas and Water Works, Tramways, and, in many countries, State Railways. It does not mean that these concerns must be run at a profit in order to come under the heading of "productive," but that the services rendered by the State or Municipality bring in a revenue which can be set against the expenditure incurred.

CHAPTER VIII

THE INCOME OF THE STATE

"As in a case of voluntary subscription for a purpose in which all are interested, all are thought to have done their part fairly when each has contributed according to his means, that is, has made an equal sacrifice for the common object; in like manner should this be the principle of compulsory contributions." J. S. Mill.

Of the three questions set out in the last Chapter (page 69) the first has now been answered, so we can proceed to the second, viz. **how does the State obtain its income?**

To this many would be inclined to answer at once, "By taxation." The answer is right so far as it goes but it is incomplete, as will very easily be seen on closer examination. In most countries the greater part of the State's income, or revenue, as it is generally called, is certainly derived from **taxation,** but some portion of that revenue, differing in amount in different countries, comes from another source altogether, namely, from the **property** it possesses, from the **services** it renders, or from the **productive enterprises** it carries on. To use the words of Adam Smith, "The revenue which must defray not only the expense of defending the society and of supporting the dignity of the chief magistrate but all other necessary expenses of government..., may be drawn either first from some fund which peculiarly belongs to the sovereign or commonwealth...or secondly from the revenue of the people." The former, commonly known as **quasi private** revenue, very closely resembles the income of a private individual. The State, like an individual, may carry on business which yields a profit, may render services for which payment is made, may own land or other property which yields an annual income. In this country, however, the revenue from quasi private sources is exceedingly small, so small indeed that it provides a comparatively insignificant part of the huge amount required to meet the current expenditure.

Quasi private Revenue.

Of businesses carried on by the State the **Post Office** (*i.e.* the services of Post, Telegraphs and Telephones) is the most conspicuous example. From this source the net revenue in the year 1913–14 was about six millions, but the accounts for the year 1919–20 showed a loss on the working of this Department of about four millions, for the year 1920–21 a loss of over seven millions. The charges, however, have been raised so that in the future it may be

expected that the income of the Post Office will be at least equal to the expenditure involved.

Under this heading should also come the **Mint**, a department which as a rule shows an annual profit of some £600,000 to £800,000.

Charges for **services rendered** by the State to particular individuals are more of the nature of taxes. They include the fees for the conferring of Patent Rights and payments demanded in Courts of Law. In 1914 about one million was obtained from this source.

Revenue from **Private Property** may be taken to include the income derived from the Crown Lands—some £650,000 annually, and the dividends on the shares in the Suez Canal purchased for the Government by Disraeli in 1875, amounting to about £1,200,000 a year.

Thus, even if we can calculate on a continuance of the profits made by the Post Office down to 1919, the total yield from quasi-private sources is but a small portion of the very large amount needed to defray the annual expenses of Government.

Some countries depend a great deal more than the United Kingdom does on the revenue derived from quasi private sources. Before the War, Germany was obtaining a considerable revenue from Crown Lands, Forests and Mines, together with a substantial sum annually from the State Railways. France, in addition to a large income from State property, obtains a revenue from the Government Tobacco factories, while Spain is able to defray a good deal of her expenditure out of the revenue derived from her tobacco monopoly.

Taxation.

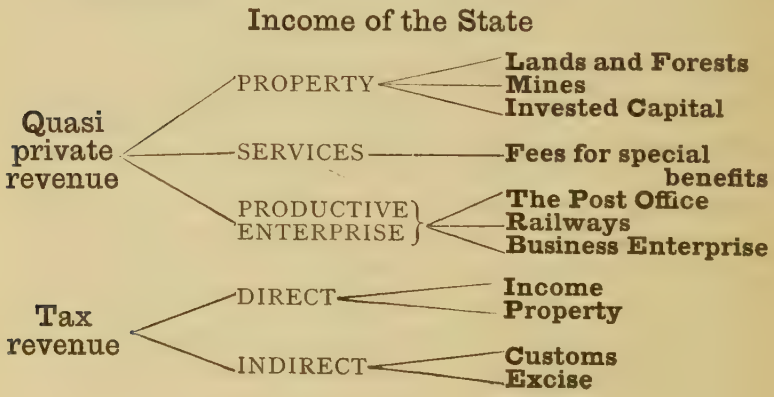
It is clear then that in the United Kingdom the bulk of the State Income must be a deduction from the income of the individual members of it, *i.e.*, it must be provided by

taxation. The sources of taxation come under the headings of Customs, Excise, Income Tax, Death Duties, Stamps, Land Tax, and Inhabited House Duty. These various forms of taxation may be classified as **direct** and **indirect**. Taxes are called direct when they are collected from the individual who it is intended or desired shall bear the burden of them. Of **direct taxes** the best examples are the Income Tax, the Death Duties, the Land Tax, Stamp Duties and also the licences which have to be taken out for carriages, motors, dogs, guns and menservants. **Indirect taxes** are collected from one person with the intention that he will get them back from someone else. These consist for the most part of Excise Duties, *i.e.* taxes levied on the production or consumption of goods, and Customs Dues levied on goods brought into the country. But in this class would also come licences for the sale of particular commodities, such as wines, spirits, beer, and tobacco. The difference between these two classes is seen to be that in the one case a man pays a tax which he is not likely to be able to shift on to anyone else, and in the other he pays a tax, the burden of which he will not himself have to bear. Where the burden of the tax actually falls is called its **incidence**, and the process of passing on the burden to someone else is called shifting. One or two examples will make this clear. A man is called upon to pay an Income Tax of, let us say, £100. As the income tax is one which falls upon everybody whose income is more than a certain exempted amount, he is not likely to be able to shift it. But in the case of a duty on imported tea, the importer may be looked upon as buying to sell again, and hence he is only acting as a middle man, as an intermediary between the producer of the tea and the consumer of it. He adds the duty therefore to the price of the tea and the incidence of the tax is on the consumer.

A distinction may very well be drawn between the

incidence of a tax and the **effects** of it. In the example given above of the duty on tea, it is evident that as the consumer pays more for his tea to the extent of the amount of the tax, the incidence is on him, but the effects of the tax may be very much wider. If, for example, the higher price of the tea led to less tea being drunk, the growers of tea, the tea merchants, and probably also quite a number of other people connected with trade or transport might suffer some financial loss. But if, on the other hand, the same amount of tea is drunk as before, a greater part of the consumer's income than before is spent on tea and there is less to spend on other things. The falling off in demand for these other things will cause loss to those who produce them or who deal in them. This again may lead to unemployment, with reduced power of consumption on the part of the workers engaged in the industry, and this in its turn affects the producers of the goods which these unemployed workers would have consumed. It is like throwing a stone into a pond. The incidence is the spot where the stone actually falls; the effects are the ripples which get wider and wider till they become quite imperceptible.

What has been said about the sources of revenue can now be summarised in the form of a diagram:—



Distribution of Taxation.

Having considered the sources from which the income of the State is derived, we must now pass to our third question: **How is it determined what each individual member of the community's share of the taxation shall be?** The distribution, as it is called, of the burden of taxation is for the most part guided by well established principles, one of the most important of which is certainly that of **justice.** This we get very well expressed in the first of Adam Smith's four famous canons of taxation which reads as follows:

"The subjects of every state ought to contribute towards the support of the Government as nearly as possible in proportion to their respective abilities, that is in proportion to the revenue which they respectively enjoy under the protection of the State.....In the observance or neglect of this maxim consists what is called the equality or inequality of taxation."

All ought to contribute in proportion to their ability to pay, but how is ability to pay to be ascertained or measured? Adam Smith tells us that ability is in proportion to income, but we should hardly agree I think that this would satisfy the claims of justice. Would taxation be equal if the same percentage were taken of all incomes, say £10 from an income of £100, £50 from one of £500, £100 from one of £1,000? We should at once say that it is a far greater hardship to pay £10 out of £100 than to pay the same proportion of the larger incomes, because after the barest necessaries of life had been obtained there would be little or no surplus. The rich have far greater ability to pay than the poor and this is recognised in the system of taxation of practically every country. The second difficulty in the way of securing equality of taxation is the impossibility of ascertaining how much any individual does actually pay in taxes. It is easy of course to say how much an individual pays in the way of direct taxes, but it would be impossible to estimate how much was paid by each in indirect taxes,

and hence in a tax system such as we have in this country which includes both direct and indirect taxes, some general attempt is made to balance the inequality of one tax against the inequality of another. As our **direct taxes** are at present levied those with small incomes are hardly touched by them at all, the main burden falling on the rich and on the moderately well-to-do. **Indirect taxes**, on the other hand, falling mainly on the consumer, affect rich and poor alike according to the extent to which they purchase the taxed commodity, the taxes on articles like tea, beer and tobacco proving in proportion to income a greater burden on the poor than on the rich.

Taking taxation as a whole then we may say that all have to bear some share of the national burdens, but that the rich and moderately well-to-do are called upon to contribute much larger portions of their income than are those whose incomes are small. Thus Adam Smith's principle of equality is followed - though the method of applying it is different.

Income Tax.

Coming back once more to the question of the distribution of direct taxes, more particularly of the Income Tax and the Death Duties, it is worth while noticing the method by which the principle of ability to pay is carried out in practice. To begin with **Income Tax**. Under the new regulations, the first £135 of all incomes is exempt from taxation and there is a further exemption for married people and for each child under sixteen. Beyond this the next £225 of income is taxed 3*s*. in the pound and all income over that 6*s*. In order to make some discrimination between earned income and so called un-earned income, or income derived from property, one tenth of the former is allowed to go free of tax. Incomes over £2000 are subject to a graduated super-tax which varies with the size of the income.

Hence it will be seen that the principle of ability to pay is secured in four ways:

1. The **exemption** of quite small incomes.
2. **Further exemptions** for married people and for those with others dependent on them.
3. **Discrimination** between earned and unearned incomes.
4. **Graduation** of the tax on large incomes.

Death Duties.

Death duties again are very steeply graduated, small fortunes contributing very much less than large, while further, the greater claim of those more nearly related is recognised in the taxing of legacies to near relatives at a lower rate than those to more distant ones.

Passing on to Adam Smith's three other maxims, we shall notice that they have more to do with the method of levying and collecting than with any principle of distribution. They are as follows:

2. The tax which each individual is bound to pay ought to be certain and not arbitrary; the time of payment, the manner of payment, the quantity to be paid ought all to be clear and plain to the contributor and to every other person.
3. Every tax ought to be levied at the time or in the manner in which it is most likely to be convenient for the contributor to pay it.
4. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the State.

The **second canon** is one which perhaps we should hardly think it necessary to enlarge upon to-day. As a rule

we know what and when and how we have to pay, but Adam Smith had recently been in France where before the Revolution of 1789 the taxes were farmed, the tax collector paying a certain amount into the Treasury and getting as much out of the people as he could.

With regard to the **third and fourth**, it is quite as desirable to-day as it was in the time of Adam Smith that the time of payment should be made as convenient as possible and that taxes should be economically collected, *i.e.*, the cost of collecting should not be out of proportion to the amount which the tax yields.

We may take it for granted that every Chancellor of the Exchequer in framing his Budget would be more or less guided by the four maxims above quoted, which for shortness can each be given in a single word—**equality, certainty, convenience, economy.**

But these are not the only considerations which the Chancellor will have to bear in mind. The national life is so much more complex, industry and trade are so much more highly organised and developed, the various industries are so much more closely dependent on one another, and the revenue required to meet the national expenditure is so infinitely greater than a hundred and fifty years ago that it is little wonder that taxation is so much more complicated and difficult a subject than in the days of Adam Smith. Most recent writers on public finance have added various other maxims to the four already quoted, but it will be sufficient for our purpose if we examine two of the most important of them, namely,

Taxes should be productive

and **Taxes should be elastic.**

1. The **productivity** of a tax involves two ideas:

   (*a*) That it brings a substantial amount into the Exchequer,

and

(*b*) That in so doing it does not destroy or weaken the source from which the money for the tax is derived, and that it does not injure the industry, trade, or finance of the country generally.

A tax which did not substantially add to the Revenue would, from a financial point of view, have little to recommend it. If the object of the tax is to get money, it is good or bad according as it succeeds or fails in this respect. Besides, every new tax necessarily involves a certain upsetting of economic relations and rouses a certain amount of opposition from those hit by it, and hence we may say that the yield of the tax ought to be sufficiently large to make up for the disadvantages connected with its imposition.

The second point may be well illustrated by a practical example. Many are inclined to urge at the present day that the effect of the Excess Profits Duty has been to check industrial development and that it should be regarded as one of the causes of trade depression. If this is the case, the tax would have to be regarded as unproductive, inasmuch as by diminishing business incomes and business profits the yield of the tax would get smaller and smaller.

2. That taxes should be **elastic** is also of great importance. If they were not, additional revenue could only be obtained by the imposition of new taxes and this where possible is to be avoided inasmuch as new taxes are bound in some way to upset the economic system. By elastic is meant that taxes can be increased without causing a falling off in the revenue derived from them. For example, in the last few years we have seen a great many of the taxes increased, *e.g.* the Income Tax and the duties on tea, tobacco, and spirits. If in the case of the Income Tax the result had been that incomes were diminished and the increase of revenue expected were not obtained, we should say that the

tax was inelastic. The Income Tax has always been considered one of the most elastic of taxes, but we can easily imagine that if the tax were raised beyond a certain point it would cease to be so. With regard to the duties on tea, tobacco and spirits, the same test would have to be applied. They have proved very elastic in the past because the increased duty has not brought with it any diminution of consumption, or at any rate not a sufficient amount of diminution to make it not worth while to put on the extra amount. But again, if these duties were raised beyond a certain point there is very little doubt that people would have to use less of the articles in question and the tax would then be seen to have lost its elasticity.

Other Reasons for Taxation.

In this Chapter we have only considered taxation from the point of view of revenue, and there are many who hold the view that taxes should be for revenue purposes only. But, on the other hand, there are many others who see in taxation an instrument for securing some other object, economic, social, or political. Some, for example, would say that the taxation on imported commodities should be regarded as a means of protecting or developing individual industries. Others that almost prohibitive duties should be levied on alcoholic drinks with a view to discouraging their use, and doing away with drunkenness; while others again would say that taxation should be used as a means of redistributing wealth, of taking from the rich and giving to the poor. These ideas however are all of a very controversial character and cannot very well be discussed in the present work.

Local Taxation.

Hitherto we have only been considering that part of the income which is appropriated by the Government for national

purposes, and which consequently diminishes the amount a person is able to devote to the satisfaction of his wants, to the accumulation of capital and to philanthropic purposes, but we must not forget that the local authorities have also wants which have to be satisfied by further demands on the individual's income in the form of what are known as **Local Rates**. In one essential particular rates differ from the taxes collected by the central government inasmuch as the revenue obtained from them is expended on objects from which the ratepayer may be said to derive some more or less direct benefit. This at any rate is the case with regard to police protection, to the lighting and paving of streets, to the removal of household refuse, to the making and upkeep of roads, to the provision of water supply and, where such things are municipalised, of gas, electric light, tramways, etc., as well. There are of course in addition some local purposes which are of general more than of individual benefit, such as the expenditure on education, on public buildings, on public institutions, on poor relief, etc. Local rates have to be paid by every householder, whether in town or in country districts, irrespective of the individual advantage derived from the various forms of expenditure.

Another very important difference between local and central taxation, between rates and taxes, is that whereas the latter are levied uniformly throughout the whole country, the former differ with each locality, the rates at one town or district being often considerably higher than of another. For instance, there is one general scheme for the Income Tax which applies equally to all, and similarly all have to pay the same duty on tea or whisky, or whatever the article taxed may be. But in one town or country district the rates may be ten shillings in the pound, or lower, while in another they may even be twenty shillings or twenty-five shillings. A third point of difference is that whereas the central taxes are levied on a great variety of objects—income and pro-

perty and commodities of various kinds—local taxation is based solely on rent and it is as householders or occupiers of houses and land that people are called upon to pay. A fourth difference is that whereas the yield of central taxes is uncertain and depends on the general prosperity, on whether incomes are high or low or on the consumption of the taxed commodities, in local taxation the total amount to be collected is decided beforehand and this amount is then divided equally over the whole rateable value of the houses, shops, warehouses and land within the area of the particular town or district, the rate being fixed at so much in the pound.

Thus, for example, if in a certain town the amount required for local expenditure were £50,000, while the total rateable value of the town was £100,000, it is evident that ten shillings in the pound of rateable value would have to be collected from each occupier.

The rateable value of a house or piece of land is not identical with the rent paid, but is in general a certain proportion of the rent. Thus, the rateable value of a house rented at £100 per annum might be £80, and if this were so, in the example just given the occupier would be called upon to pay £40 a year as rates.

Local rates are now (1921) very much higher than they were before the War. This is due partly to the fact that the local bodies have to pay so much more in wages and salaries to all the people they employ, and so much more for all the appliances or materials they purchase and partly to the increase of the duties they have to perform. Local rates, therefore, like central taxes, absorb at the present time a very much larger portion of the income than they did in 1914.

BOOK VII

ASSOCIATION AND CO-OPERATION

CHAPTER IX

TRADE UNIONS

"Unions have been at once a chief product and a chief cause of this constant elevation of the Standard of Life: where that Standard is high, Unions have sprung up naturally; where Unions have been strong, the Standard of Life has generally risen." MARSHALL.

HITHERTO we have been concerned with men and women as individuals—with their individual wants, with the efforts they make to satisfy them, with the income resulting from such efforts, with the satisfaction obtained through the spending of the income. But in the interchange of services which forms the essential feature of modern economic activity some have much greater bargaining power than others and this affects very materially both the amount of the income which is obtained in exchange for a service rendered, and the amount of goods and services which can be obtained by means of the purchasing power which that income represents.

This inequality of economic strength has led to the formation of voluntary Associations of various kinds, by means of which the economically weak can through combination and co-operation secure advantages which as individuals they would be unable to obtain. Two forms of Association which have done much to raise the Standard of Living of the wage-earning classes are Trade Unions and Co-operative Societies, and so widespread has been their activity and so powerful their effect in improving the economic position

of their members that some notice of them will naturally find a place in the "Economics of Everyday Life."

The whole question of *economic* well-being is bound up in this phrase, "The Standard of Living," and the standard of living depends mainly on two factors:

1. The size of the income.
2. How far that income will go in the satisfaction of wants.

The former is the point of view of people as producers, the latter is the point of view of people as consumers. It is in their capacity of producers that the members of Trade Unions associate for their common good, and it is in their capacity of consumers that members of at any rate one type of Co-operative Society do the same. The need for such association arose out of the economic distress which the working classes suffered as a consequence of the industrial changes which took place in the second half of the 18th century and the first half of the 19th. The essence of these changes was the wide spread of capitalistic industry, one feature of which was the establishment of a permanent wage-earning class. Industrial society tended to divide itself into two well marked classes, employers and employed, and the terms of the contract between employer and employed were the result of a bargain in which the economically stronger always had the advantage. Prior to the industrial revolution, the rates of wages and the conditions of industry generally were settled by authority, but during the revolution all such regulations and restrictions were swept away and free competition took their place. Competition has its good as well as its bad side. It is good in so far as it provides an economic stimulus, as it leads to efficiency, to progress, to social improvement. It is good also in so far as it leads to the fixing of prices with some approximation to cost of production, but it is bad in so far as it encourages selfishness, as it gives

opportunity for the economically strong to get the better of the economically weak.

Free competition implies that all are equally well able to look after their own interests, but some do not even know what that interest is, and in any case are too ignorant, too economically weak, too handicapped in the race of life to secure it. The pioneers of the Trade Union and Co-operative Movements recognised that though as individuals the workers might be weak and powerless to look after their own interests, collectively they would be strong enough to hold their own. These two movements therefore were in the nature of a revolt against the system of pure individualism and free competition, and constituted an attempt by the workers themselves, not by an appeal for Government assistance but by voluntary association, to improve their economic position and to raise their standard of life. Their point of view is very well expressed by Mr Price[1] when he says: "It is because individuals sometimes allow the consideration of their immediate interests, or the passing influence of passion, to blind them to their true permanent interests, and it is because there are men, and at any rate there are women and children, engaged in industry who start with a disadvantage, which no purely economic force seems likely to remove, in strength of body, or mind, or pecuniary resources—it is for these reasons that later experience has tended to enforce the conclusion that competition cannot, consistently with due regard to the real and lasting prosperity of a whole nation, be entirely unrestricted and free."

The Trade Union Movement.

The Trade Union Movement may almost be considered as a natural consequence of the Industrial Revolution of the 18th century accompanied as it was by the removal of restriction and regulation, by the introduction of free com-

[1] L. L. Price, *Political Economy in England*, p. 10.

petition, by the formation of separate industrial classes, in short, by the so-called conflict of Labour and Capital.

The three fundamental ideas of the movement seem to have been:

1. That the workers in any particular trade or industry, like any other group of persons, had the **right to combine** in order to secure what they considered to be their own particular interests.
2. That a **voluntary association** would afford to the members mutual support and protection. It was a recognition that as individuals, workers were economically weak, and that strength could only be got by unity.
3. That an association of this kind should be as far as possible **inclusive of all the skilled workers** in a particular trade, but exclusive of the workers of other trades. The trade constituted the common tie, and an improvement in the conditions of work and wages in that trade the common interest.

Originally the Trade Union was an organisation to resist the oppression of the worker by the capitalist employer. When work had to be done under what is known as the factory system, when the division of labour brought it about that the artisan no longer carried out a complete work from start to finish but confined himself to some particular process, or even part of a process, when industrial effort became a matter of scientific organisation and the individual worker seemed to become a mere part of an industrial machine, the status of the worker underwent a considerable change and from being a more or less independent craftsman he became a wage earner or permanent employee. The Trade Union recognised that this change had taken place, as is borne out in Mr Sidney Webb's definition:

> "A Trade Union," he says, "as we understand the term, is a continuous association of wage-earners for the

purpose of maintaining or improving the conditions of their employment."

The worker, having no funds to fall back upon in case of unemployment was obliged to take what work he could get and to accept the wage which the employer chose to offer. He could not, so to speak, put any reserve price upon his services. But what the individual could not do for himself, the organised body of workers could secure. If the members of a Union refused to accept what they considered to be an insufficient wage, or if they refused to work an excessive number of hours, or under unsatisfactory conditions, they could rely on their organisation and its funds to give them something at any rate to live upon during the period that they remained out of work. The years which immediately followed the Napoleonic Wars were years of very great industrial depression. For some time past industry had been advancing by very rapid strides, but then came a sudden falling off in demand leading to a fierce competition between manufacturers to obtain orders, to the cutting of prices and reduction of wages below what was even a subsistence rate.

The first great obstacle which the pioneers of the movement had to overcome was the **laws against combination.** By the Combination Acts of 1799 and 1800 all combinations to fix wages or terms of employment generally were illegal, being regarded as "in restraint of trade." As a consequence, all associations of the kind had almost to be of the nature of secret societies which, if discovered, would be at once crushed and their members punished. It was necessary then to secure the repeal of these laws, and that this was accomplished was due largely to the efforts of Francis Place, who had a little tailor's shop at Charing Cross, and who used to gather in his library behind the shop Members of Parliament and others interested in social improvement all anxious to remove what they regarded as an encroachment on personal liberty and a hindrance to all social advance.

In 1824 a Select Committee of the House of Commons was appointed to examine into the whole question of the laws affecting workmen as such. They reported that in spite of the laws against combination, workmen had in fact combined to raise wages, and masters to lower them, that in many cases both masters and men had been prosecuted for breach of the laws but that only in the case of the latter had punishment followed. They recommended therefore that "masters and workmen should be freed from such restrictions" and that disputes between them should be settled by arbitration.

The result of this reportwas the Act of the same year (1824) which repealed the Acts against Combination and enacted that workmen joining in peaceful combinations or going on strike should be free from liability to punishment. So many strikes however followed immediately after the passing of the Act that it seemed probable that it would itself be repealed in the following year, but the friends of the Trade Union movement succeeded in preventing this, though the Act of 1825, while giving the men the right to combine and the power to withhold their labour, brought a great many of the actions of members of a Trade Union within the operation of the law against conspiracy.

The victory of 1824–25 was therefore a very partial one, though it may be regarded as a very important step towards greater immunity and more complete recognition. It took, however, another 50 years of struggle before the position of the Trade Unions was fully established and the chief of the disabilities under which they laboured were removed.

By the Employers and Workmen Act of 1875 the workmen were given the same legal status as the employers, both becoming equal parties with regard to labour contracts, and the old classification of masters and servants was done away with.

A further Act of the same year, the Conspiracy and Pro-

tection of Property Act, did away with the Common Law of Conspiracy in so far as it affected trade disputes, and at the same time explicitly permitted "peaceful picketing."

The Trade Union Acts of 1871 and 1876 removed the illegality that had attached to all combinations that were "in restraint of trade." Further it vested all the property of registered Trade Unions in trustees, enabled Trade Unions through their trustees to sue or be sued in any court of law, and protected the funds of the Unions against proceedings for damages in respect of breaches of certain agreements.

This last privilege was claimed by the Unions as covering all civil proceedings and all claims for damages that could be brought against them. Hence when in 1900 the Taff Vale Railway Company sued the Amalgamated Society of Railway Servants for inducing their employees to break their contracts and for interfering with the traffic of the line, Trade Unionists as a whole considered that the Act of 1871 was a sufficient protection. The case was finally decided against the Amalgamated Society who had to pay damages and costs amounting to £23,000. This led to further agitation, which resulted in the Trades Disputes Bill of 1906, the main provision of which was that no action could be brought against a Trade Union in respect of any civil offence alleged to have been committed by or on behalf of the Trade Union in furtherance of a trade dispute.

Objects and Activities.

From this brief historical survey of the Trade Union Movement we must turn to the Trade Unions themselves and consider their objects and the nature of their activities. Their **objects** may be summed up as being: To promote in every possible way the economic interests of their members, recognising that it is through improving economic conditions that the Standard of Living can be raised and that men and women are enabled to live better, fuller and more useful

lives. Their **activities** may be considered under two main headings:

1. The **industrial**, aiming at improving the conditions and terms of employment.
2. The **social**, aiming at making some provision for the accidents of life.

A third side of Trade Union activity, namely, the **political**, is a very important one but it is outside the scope of our subject. The industrial and social sides of Trade Union activity have a very close bearing upon one another. Any permanent improvement of a substantial character in the economic position of the members of a Trade Union must depend on the maintenance of a high standard of efficiency, and this the early Trade Union leaders set themselves to secure; but they realised that a great deal of the social distress and a great deal of the inefficiency were due to irregularity of employment, to sickness and other causes which might lead to temporary stoppage of income. It was by providing for these accidents of life that the Trade Unions helped to prevent loss of efficiency by enabling a man to keep his home going and to maintain to some extent a decent standard of living when for one reason or another he was unable to earn.

On the **industrial** side—what may be called the **trade policy** of the Unions—the chief aims are:

1. The securing of **the highest rate of wages** which under existing conditions **the industry is able to bear**. This is done by what is called collective bargaining between the employers as a body and the Trade Union acting on behalf of its members.
2. The **reduction of hours** of labour with a view to (*a*) preventing overstrain, which not only causes hardship at the time but which tends to injure permanently the workers' health and to diminish

labour power and efficiency, (*b*) giving opportunity for recreation, intellectual improvement and social intercourse as well as the exercise of the duties of citizenship.

3. The securing of **healthy, safe and pleasant conditions of work.** Much of this has of course been done by the Factory Acts, but the Trade Unions watch the operation of those Acts in the interests of their Members and draw attention to what they consider omissions, or to any failures in their administration.

4. The **defending of individual members** against injustice or ill treatment, demanding to know reasons for dismissal and investigating causes of complaint.

5. The securing, so far as possible, of **continuity of employment.** This does not involve permanent engagements or employment for long and fixed periods, but it involves some regulation of the supply of labour and where work is slack, the more even distribution of that work. For example, when in coal mines or in the cotton mills stocks are accumulating more quickly than they can be disposed of, the Union would probably prefer to meet the situation by reducing the number of days worked per week than by the dismissal of large numbers of the men, or keeping them all employed for the full week at reduced rates of wages. The Trade Union objection to overtime is due to some extent to the desire to secure regularity and continuity of employment, though doubtless some part of their opposition has to do with their general objection to long hours of work referred to in No. 2 above.

The two methods of securing their objects, apart from that of securing legislation or Government support in cases where

great general principles are involved, or the interests of the community are specially affected, are:

1. **Negotiation.**
2. **The Strike.**

In the early days of Trade Unions no doubt negotiation was comparatively unsuccessful, and the strike in a majority of cases was the only way of effectively supporting their demands. But in this respect matters have considerably improved. The old hostility of the employer to the Trade Union Movement has largely disappeared, the Unions themselves have increased in membership, in position, and in financial strength, the leaders have gained in experience and in knowledge of the working of economic forces; there are many more opportunities of obtaining knowledge of the inner workings of an industry and discussing the problems connected with it with the employers and even with the Government.

Negotiation is therefore now on a higher plane. The Trade Union officials can meet the employers' representatives as equals, and it ought therefore to be much easier at the present day to arrive at a peaceful settlement of the matters in dispute than it was even fifty years ago. The strike should obviously be the last resort, only to be used when negotiation has failed to convince either side of the justice and expediency of the other's cause. Strikes are a mere trial of strength and from that point of view are satisfactory to no one. The stronger side is not necessarily in the right. A strike brings hardship and loss to the strikers and depletes the funds of the Unions, while on the other side, the stoppage of work diminishes production and often inflicts serious injury on the workers in other industries, and on the public generally. It is recognised however that the right to strike is a weapon which the Unions must have in reserve, but it should only be used when everything else has failed and when the justice and urgency of the cause really warrant it.

The **social** side of the Trade Union activity consists in the provision of what are known as Provident Benefits. These consist in the main of allowances for funeral expenses on the death of a member, the payment of a weekly sum during sickness, the payment of an allowance on compulsory retirement, assistance in case of accident, payment of out of work allowance, etc., etc. Out of work allowance must be distinguished from strike pay. The latter, resulting from the trade policy of the Union must be connected with their industrial activities and not with these provident benefits.

The provident benefits are not a necessary part of Trade Union activity and some Unions, especially Unions of unskilled labour where the subscription is small, do not provide them. Howell, in his *Trade Unionism New and Old*, distinguishes between the Old Trade Unions in which provident benefits play a prominent part and new Trade Unions which he describes as being merely "fighting machines." He quotes as typical a resolution passed by one of the new Unions:

"That the Union shall remain a fighting one and shall not be encumbered with any sick or any accident fund."

Howell himself attaches great importance to the more social side, saying:

"These benefits constitute the chief glory of the old Trade Unionism."

The importance however of this side of Trade Union activity is likely to diminish as other provision is made for insuring the worker against the uncertainties of life and the irregularity of employment. By the provision of Old Age Pensions, and of Sickness and Unemployment Insurance the worker is relieved of the most pressing of his anxieties in these respects, but a good deal more remains to be done and at the present time schemes for dealing more adequately with the question of unemployment are absorbing a great deal of public attention.

CHAPTER X

THE CO-OPERATIVE STORE

"The ideal of a good economic organization should be not profit, but the satisfaction of wants. This is precisely the programme of the co-operative societies for consumption." GIDE.

REFERENCE was made in the previous Chapter to the part that Co-operative Stores played in improving the position of people as consumers. It is this aspect of the question of co-operation which forms the subject of the present Chapter.

It is usual to classify Co-operative Societies under two headings :—

1. **Associations of Consumers.**
2. **Associations of Producers.**

It is evident then that it is with the former class that we are now about to deal. It has been stated that the essence of co-operation is the doing away with competition and the elimination of profits. The early co-operators regarded the pursuit of profits as the root cause of all economic competition and, through competition, of the depressed condition of the working classes and of social degradation generally. They therefore tried to establish industry on the basis of doing without the employer and of sharing any surplus gains amongst the workers themselves, but any success these attempts met with was only temporary, and all the various schemes set on foot came ultimately to grief. The application of co-operative principles, however, to the distribution of commodities proved far more successful, and the Co-operative Store, which in its present form may be said to have had its beginning in the foundation of the **Rochdale Society of Equitable Pioneers** in 1844, has become one of our most important trading institutions.

The Rochdale Store.

From the very beginning of the century, and still more from the repeal of the Combination Acts in 1824, experiments had been made of a co-operative character, though none of them proved to be a lasting success, which is sufficient evidence that a sound practical basis for co-operative effort had not yet been discovered. The failure of these early experiments however had served to show where the main difficulties lay, and how they could be overcome, and it was left for the Rochdale Equitable Pioneers to formulate the principles which have guided co-operative distributing societies ever since. We shall best arrive at these principles by following the early history of this Rochdale store. As a means of getting over the high prices and the poor quality of the goods that were to be obtained in the neighbouring shops, 28 working men of Rochdale decided to buy certain general articles of consumption wholesale and to distribute them amongst themselves. For this purpose then they decided to raise a capital of £28 by weekly subscriptions of 2*d.* each. The process, however, took so long that the weekly amount was afterwards raised to 3*d.* When the savings of each had amounted to £1, they commenced operations. They opened a small shop two evenings a week for the benefit only of members and their families. At first they stocked only four articles, flour, butter, sugar, oatmeal. The members took it in turn to act as salesmen, and so there were no distributing costs. This proved a great success, and their friends were so anxious to join that the membership was enlarged and the new capital brought in by additional members enabled the business to be extended.

	£
As already stated, the **capital** the first year was only	28,
but the next year the **capital** had increased to ...	181,
the **sales** that year amounted to	710,
and the **profits** were	32.

From that time on the progress was very rapid as the following figures for the first 15 years of their existence clearly show:

		£		£		£
1850	**Capital**	2300.	**Sales**	13000.	**Profits**	890.
1855	„	11000.	„	45000.	„	3000.
1860	„	37000.	„	152000.	„	16000.

This development, however remarkable, was not more than the Rochdale Pioneers had foreseen, for although they started on such a small scale they laid down a very big programme for their future operations, and one cannot do better than give in their own words the full scheme they had in mind when they started the little store in Toad Lane with 28 members and a capital of £28:

"The objects and plans of this Society are to form arrangements for the pecuniary benefit and the improvement of the social and domestic condition of its members, by raising a sufficient amount of capital in shares of £1 each, to bring into operation the following plans and arrangements:

The establishment of a store for the sale of provisions, clothes, etc.

The building, purchasing, or erecting, of a number of houses in which those members desiring to assist each other in improving their domestic and social condition may reside.

To commence the manufacture of such articles as the Society may determine upon, for the employment of such members as may be without employment, or who may be suffering in consequence of repeated restrictions in their wages.

As a further benefit and security, the members of the Society shall purchase or rent an estate or estates of land, which shall be cultivated by the members who shall be out of employment, or whose labour may be badly remunerated.

That as soon as practicable the Society shall proceed to arrange the powers of production, distribution, education, and government; or, in other words, to establish a self-supporting home colony of united interests, and assist other societies to establish such colonies.

That for the promotion of sobriety, a temperance hotel be opened in one of the Society's houses as soon as convenient."

From this it will be seen that in spite of their very modest beginning the Rochdale Pioneers had a very ambitious programme including:

1. The opening of a **general store**.
2. The **building of houses** for Members.
3. The starting of **industrial enterprises** in which Members could be employed.
4. The **acquiring of land** on which Members could be employed who were out of work.
5. The opening of a **temperance hotel**.
6. The establishment of a self-supporting **home colony**.

These **objects** in many respects resembled very closely those of the earlier societies referred to, and it may well be asked why the Rochdale Pioneers succeeded and the others failed. The most striking difference perhaps between them was that in the Rochdale scheme, unlike most of the former experiments, profits did not go to those who provided the capital but were divided amongst all the members in proportion to the amounts of their purchases. In other words, the consumers and not those who provided the capital were the only persons directly interested in the success of the business. The services of capital were remunerated by the payment of a fixed rate of interest, and this they regarded merely as one of the necessary expenses of working.

The **methods** of conducting their business were also largely responsible for the Rochdale success. These methods

have been adopted as their basis of operations by all co-operative distributing societies which are really co-operative in character and not only in name. They may be briefly stated as follows:

1. Although the object of the store was to save intermediary profits and to provide members with articles of good quality at the lowest possible price, there was no underselling of other retailers. Goods were not sold at cost price but at the retail prices prevailing in the district, and the surplus resulting from their trading operations was not regarded as profits but as something which the members at the time of purchase had paid in excess and which was therefore returned to them at the end of the year in the form of a dividend on the total amount spent by the member. This has in most cases worked out at about 2*s.* in the £1.

2. At the end of the year members were able to choose between receiving their dividend in cash or leaving it in the store as capital for which they would receive interest in the ordinary way. The latter alternative was a very great inducement to thrift. By merely leaving, as in a savings bank, the dividend which fell due at the end of each year, a member who dealt regularly at the store became possessed of quite a considerable sum available for use in emergencies, for starting new business, or for some other equally desirable purpose.

3. All buying and selling was for cash. Running up bills was not allowed, and this struck at the very root of much of the misery which prevailed at the time at which the Rochdale store was started. It was very tempting when wages were low and periods of unemployment were frequent to get goods at neighbour-

ing shops on credit, with the idea of paying at some more convenient time, which however never seemed to come. Many workers therefore had a millstone of debt round their necks which they seemed quite unable to get rid of. Selling for cash was at once a much needed reform and a source of financial security to the store.

4. The store was a kind of miniature democracy. The members formed the governing body and each member had a vote on questions which came before it.

Another very estimable feature of the Rochdale scheme which may also be found in most of the co-operative societies of to-day is the definite setting apart of a portion of the surplus for **educational purposes**. The Rochdale Pioneers set aside $2\frac{1}{2}$ °/₀ for this purpose, and this proportion is still a very usual one. By education is meant not the ordinary school education of children, but what may be called the education of citizens, *i.e.* the provision of educational facilities for those whose days are otherwise fully occupied. Here we find a recognition of the fact that without education, industrial and social improvement can never go very far. To the true co-operator, no part of the society's work is more important than this. The Rochdale store, which had such small beginning in 1844, is now a vast organisation, including many branch stores and industrial activities of many kinds, while on the educational side the society has a large cirlating library, with branch reading-rooms in many districts, has lecture-rooms, class-rooms, and laboratories fitted with all modern appliances, thus providing opportunities for technical training as well as for courses of study in the various branches of knowledge.

From what has been said, it is now easy to understand what an important part co-operative societies play in this

matter of spending the income, for by their system of cash payments and the saving of intermediate profits, they afford their members every opportunity for economic expenditure of income; while the principles of self-help, self-government, and thrift which they directly encourage, as well as the opportunities they provide for educational improvement, serve to promote a higher standard of living and a higher standard of citizenship.

The Co-operative Wholesale Society.

One of the most important developments in co-operative trading during the last fifty years has been the institution of the **Co-operative Wholesale Society**. The Rochdale Pioneers, as we have seen, included in their programme manufacturing as well as trading activities, and hence to a certain extent there is nothing new in the work of the Co-operative Wholesale Society, but there is this difference, and it is an important one: the Co-operative Wholesale Society is like a large store of which the customers are not individuals but societies, these societies being the various local stores which have formed themselves into a kind of federal body for mutual advantage.

The Co-operative Wholesale Society is a huge organisation formed to supply the stores which constitute its membership with all that their customers demand. Some of the commodities required they manufacture in their own works or produce on their own estates. Others they buy direct from the producers in the various parts of the world, in this way getting for their members all the benefits which can be derived from purchase on so large a scale.

The gain to the Co-operative Societies of having such an organisation at their disposal and under their control is many sided. Four aspects of it are deserving of special mention:

(1) The conditions under which the goods are produced are well known to them and they can therefore rely on the labour expended on them being properly remunerated and on the work itself being carried out in healthy surroundings.

(2) There is some guarantee of the quality of the goods they sell.

(3) The Wholesale Society supplies the stores which buy from it with goods at a price which leaves only a small margin of profit, but this profit, whatever it may be, does not go to those who provide the capital, but is distributed to the various Co-operative Societies in proportion to their purchases, and as these societies in their turn distribute all their surplus to their own members, the profits of the wholesale society are passed on in the same way, and ultimately swell the dividend of the individual consumers.

(4) The employees of the Wholesale Society, like those of the various Co-operative Stores, do not share in the profits of the undertakings in which they work. They receive salaries or wages in the ordinary way. All surplus goes ultimately to the consumers who by their co-operation formed the particular society of which they are members.

The work of the Co-operative Wholesale Society is very complex and is carried on on a very large scale. It has factories in many towns for the manufacture of all kinds of food, furniture, clothing, etc. It has ironworks, soapworks, printing works, flour mills. It has tea plantations of its own; it has fruit farms, dairy farms and creameries. It has branch establishments in many parts of the world, such as the United States, Canada, Australia, France, Spain, Sweden,

and Denmark. The writer not very long ago, on landing at Aarhus in Denmark, saw the familiar legend, "Co-operative Wholesale Society" in large letters on one of the biggest warehouses there. The scale of its operations may best be gathered from the details given in *The Story of the C.W.S.*, a work issued as a Jubilee memorial in 1913. There it is mentioned that the Society in 1912 had in its employ 21,210 persons, that it had a capital of over 8 millions, that its net sales amounted to nearly 30 millions, and its net profits to about £613,000.

CONCLUSION

In conclusion it may be well to sum up very briefly the ground that *The Economics of Everyday Life* has attempted to cover. As the title suggests, the object was to explain the economic life that is going on all around us, and to describe the various parts of the industrial organisation as it at present exists. An attempt has been made to show that economic activity springs from man's wants, and that it is through that activity that wants are satisfied. Part I is concerned as a whole with the various forms of effort, and with the way in which individual effort results in individual income; Part II with the application of that income to the satisfaction of individual wants.

The most important features of present day economic life have been shown to be:—

1. **The interchange of services**—each one satisfying his or her wants by rendering services which will satisfy the wants of others.

2. **Economic inter-dependence**—not only of the members of the same community but of people all over the world. What affects one to a large extent affects all. If one class of the community is economically weak, all are in some way affected, and what is true within the community is equally true outside it. Our manufacturers at home depend for their supply of raw materials on producers of such materials abroad, and depend also for the sale of their manufactured products on the custom of people in many lands. The mere fact that a great producer of raw materials like Russia, and a great manu-

facturing country like Germany are for the time being more or less outside the circle of international commerce is making it difficult for some to get their usual supplies of food or raw material, and for others to get a ready market for the goods they produce.

The War has made this inter-dependence clearer than it ever was before, and has served to show that once the economic machine is thrown out of gear it takes a very long time before it can be running smoothly again, and that in the interval much disturbance of the balance between demand and supply, between consumption and production, is bound to take place, with corresponding loss, inconvenience and hardship to people in every calling in life, in every country of the world.

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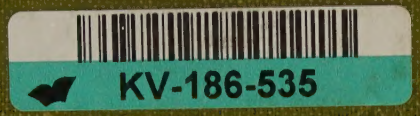
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